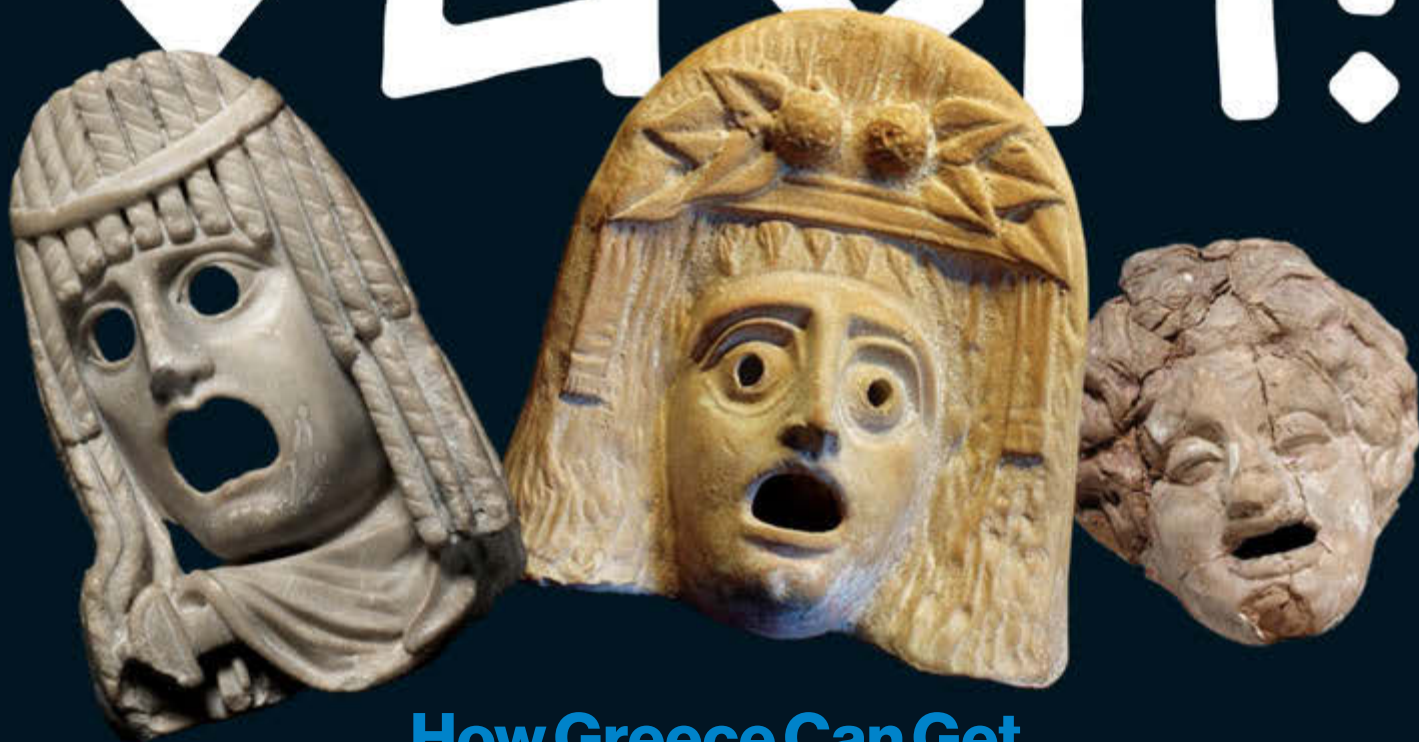




OUCH!



**How Greece Can Get
Past the Pain** p10



corner

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An aerial, high-angle view of the New York City skyline at dusk. The city is densely packed with skyscrapers, many of which are illuminated with warm lights. The Hudson River and East River are visible in the background, with the Manhattan skyline stretching across the frame.

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“We gave Dre and Jimmy an education in sound. They were talking about building a better speaker, and I said, ‘Headphones are the new speakers. Let’s make headphones together.’ And that’s where Beats came from” p60



“If the mayor or city manager asks us to prove this approach is worthwhile, we run for the door”

p51

“My father worked in a mental hospital as a security guard, and that’s pretty much the same job as running an ad agency”

p92

“Mr. Plouffe, if you come to Portland without following our rules, we’re going to throw the book at you!”

p54

Opening Remarks How Greece can keep this drama from ending in tragedy 10

Bloomberg View Toyota's hybrid shares are worth a test drive • The EPA and toxic chemicals 14

Global Economics

Putin turns to military spending to battle Russia's recession 16

Rivers may keep on rolling, but aging locks are slowing ships and could crimp U.S. trade 17

Yellen labor adviser Mary Daly knows what it's like to live paycheck to paycheck 18

China's World Cup dreams run into the FIFA fiasco 19

A crackdown on African asylum seekers could be a problem for Israel's hotel industry 20

Companies/Industries

An anxiety-filled Shanghai-Beijing road trip highlights the bumps for Tesla in China 22

A promising gene-editing technique is a magnet for venture capital—and for ethical concerns 23

Nestlé's plan to revive consumers' appetite for Lean Cuisine 24

Wal-Mart goes offshore to cut billions from its U.S. tax bill 25

Briefs: Martha Stewart's sale; Ford gets into car-sharing 26

Politics/Policy

Jeb Bush says goodbye to his closest adviser—by putting him in charge of his super PAC 28

Democrats push a bill for full LGBT equality, despite an uncertain path in the Republican-led Congress 29

Farmers seeking subsidies place bets on what will cause the most trouble: the weather or the markets 30

A government plan to cut Medicare costs is making patients sicker—at least on paper 32

Texas is bringing its \$650 million stash of gold home from a New York vault. Now, where to put it? 33

Technology

Office chat service Slack woos the finance industry, where too much fun can be risky 35

Entrepreneurs in Berlin's frenzied startup culture take the talking cure 36

China's \$161 billion plan to build a domestic chip industry 37

Dropbox is adding users at a remarkable pace. A plan to make money is coming a lot more slowly 38

Innovation: Turning an iPhone into a microscope to help eradicate river blindness 39

Markets/Finance

Investors look for signs of Capital One's next move 41

As government support dries up, Egyptian farmers are bailing on the country's coveted cotton 42

Employees of hedge fund Renaissance Technologies get a tax-free ticket to wealth 43

To counter Alibaba's move into banking, Chinese banks start online malls 44

Bid/Ask: A very big deal for 3M; Anthem goes after rival Cigna 45

Focus On/Cities

Caterpillar digs deeper into Peoria 47

Rapper Drake is a one-man PR machine for Toronto 48

Giving businesses landmark status to save San Francisco's past from skyrocketing rents 49

Cisco and Sprint smarten up Kansas City 51

Features

Uber Rules The car-sharing service fights City Hall—and wins—with a crack team of lobbyists 54

Beatraged Noel Lee says he built the headphones Apple paid billions for. Now he wants his cut 60

Megacraft Beer As the maker of Bud goes artisanal, can the craft movement survive? 66

Etc.

Promoter Peter Shapiro brings the Grateful Dead back to life for one last farewell 83

Design: Light things up with new takes on the classic banker's desk lamp 86

Food: Irish beef is back in the U.S. after almost 20 years. Will American consumers bite? 88

Books: Seven reads about working life worth taking on vacation 89

The Critic: HBO's *The Brink* tries to make foreign policy funny 90

What I Wear to Work: Margarita Barry balances her colorful, creative side with a little structure 91

How Did I Get Here? Kevin Roberts dropped out of high school—then took over the world of advertising 92

Cover Trail

How the cover gets made

1 "Cover is on the Greek economic crisis and outlines how the country could come out ahead."



2 "The Parthenon overshadowed by dark clouds." "Too obvious."



3 "A pretty tourist postcard scene." "Doesn't say crisis."



4 "An ancient Greek mask expressing pain." "This feels closer, but why stop at just one?"



5 "Now we just need to put ourselves in the shoes of the ancients and imagine what their assessment of the current state of Greece would be."



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Feedback

What Is Code?



I just read “What Is Code?” (June 15–June 28, 2015). One of the most original and entertaining pieces I’ve read in a long time. Excellent work!

And hilarious. I love the photo of the empty chairs at the Bloomberg Technology Conference. And how the animation made fun of me at the end of the article for how long it took me to get through 38,000 words. “Slowpoke!” Great stuff.

Matt Regan
via e-mail

I just wanted to compliment you on a truly great article. First of all, I thought your explanations of some of the fundamentals of computing were simply wonderful. But as a fellow programmer, what I really appreciated was your attention to some of the undesirable behavior in the industry: the misogyny, the religious attitudes to programming languages, the endless conferences which often just reinforce tribalism and hierarchy, etc. These are all things that have really bothered me over the years, yet I’ve usually found that no one else around me even sees these problems, making me feel something of an outsider in my own industry. So it was really refreshing to read the words of a programmer who expresses these problems in a way that strikes such a chord with me.

Karl Beecher
via e-mail

It is hard to describe how I’m feeling right now. I just finished “What Is Code?” and I needed to speak to another human being, so I am writing this e-mail. It is 4:23 a.m. here in Michigan. I am a recent grad who majored in computer science.

The best way to describe how I felt

when reading your piece is: I think I felt like what a very devout and religious person feels like when they read the Bible. I am not particularly religious, but literally every line of your article was something that resonated with me. It seemed like you went into my head, took every original thought and feeling I have about programming, and then decorated it with beautiful prose.

It was eerie how many things I had in common with the article. I even worked on an agile team that did sprints and stand-ups and had sticky notes on a board on a project that was two to four weeks behind schedule.

Anyway, thanks for writing it.

Vishaal Kalwani
via e-mail

As an electrical engineer who started on punch cards and was fluent in Pascal, I had my own coding reinvention when I left the world of big defense and started my manufacturing business, Gates2U. I picked up PHP for creating dynamic websites, along with HTML/CSS/Ajax and responsive Web design, in order to have our customers create their own designs so we could build products, giving us a real edge in our niche. The open source movement made this business a reality, forming a large part of our back-end order management systems. Reading Paul Ford’s article, with its whimsy and well-formed opinions, prompted me to get off my butt and commit to evaluating new frameworks for development, and another language. I’m in my 50s now, and you can’t stop learning if you want to be able to move with the times in software. (I do wish there were more women my age still in it.) Thank you so much for this issue.

Cheryl Campbell
via e-mail

You talk about the “legend of the 10x programmer.” I’m a 10x programmer, and I always wondered, why doesn’t my management see it? The bottom line is, the programmer Paul Graham made the point, “If you’re not good, you don’t know who is.” So I basically think it’s a case of the blind leading the blind. In corporate websites, some work well, others are crazy. My theory is, if the

guy at the bottom is good, he does good work. If not, catastrophe.

I’ve seen lots of projects that used dozens of people that could be done by a few superb people. (When you have fewer people doing software, the productivity goes up tremendously.)

My experience is, when people talk about board design, they talk about physical constraints, and they can have consensus on what is good and what is bad. With software, you generally can’t have consensus—my experience in meetings is, whoever is the loudest for the longest wins. If a car was done in software, the software engineer would say: “Let’s put the gas pedal on the ceiling and brake pedal in the back seat.” The manager, who has no clue, would say, “Sure, try it.”

Marty Leisner
Rochester, N.Y.

A fascinating and true observation of some of the issues driving business decisions, failed software projects, and the real-life parody of technologists holding uninformed management by the *cojones*. I’ve lived through both language and methodology jihads, and I can’t help but fondly remember how we landed on the moon with 38kB, assembly code, and slide rules.

Eric von Stromberg
via e-mail

I’m sure I will not be the only person to write and tell you that your concept of Fortran is way out of date. You mention Fortran 77—we are now up to Fortran 2015.

Nobody I know writes in the upper-case mode that you chose to make it look clunky. Nobody uses statement numbers anymore. Believe it or not, Fortran is very healthy and still relevant.

Gib Bogle
Auckland

My best friend is a Brit. He sometimes says he was “gobsmacked” by something. Google defines it as utterly astonished; astounded. I was gobsmacked by your article. Fluent. Funny. Articulate. Entertaining. Illuminating. Humbling. Wonderful.

Thank you.

Jeff Pylant
Naples, Fla.

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Index

People/Companies



ABC

AB InBev (AB:BB) 68
Abbott, Greg 33
 ABP Food Group 88
Abramowitz, Andy 89
 Airbnb 47, 56
 Albini Group 42
 Alibaba Group (BABA) 44
 Altice (ATSVF) 45
 Amazon.com (AMZN) 26
Anastasio, Trey 84
Ansel, Dominique 24
 Anthem (ANTM) 32, 45
 Apple (AAPL) 25, 29, 41, 62
 Archer Daniels Midland (ADM) 17

Ardis, Jim 47
 Assicurazioni Generali 10
 Autonomous Research 41
 Bank of Communications (3328:HK) 44
Barry, Margarita 91
Becerra, Xavier 29
Behn, Christoph 36
Bell, Larry 68
 Bell's Brewery 68
 Bertelsmann 36
Bisacca, Joe 68
Black, Jack 90
Blair, Tony 16
Blankfein, Lloyd 16
Blatter, Philippe 19
Blatter, Sepp 19
 Bohemodern 91
Boies, David 62
Boozman, John 29
 Bose 62
Bosley, Katrine 23
 Boston Beer (SAM) 68
 Boston Consulting Group 44
 Bouygues (BOUYF) 45
 Box (BOX) 38
 BP (BP) 26
Bradshaw, Sally 18
Brito, Carlos 68
 Broadcom (BRCM) 37
Brown, Tom 41
Buhler, David 68
Bush, Jeb 28, 29
Campos, David 49
Cantwell, Dick 68
 Capital One Financial (COF) 41
 Capital Safety 45
Capriglione, Giovanni 33
 Car2Go 56
 Cargill 17
 Carlyle Group 62
 Caterpillar (CAT) 47
 China Merchants

Bank (3968:HK) 44
 Christian Dior (MC:FP) 42
Cicilline, David 29
 CID Entertainment 84
 Cigna (CI) 45
 Cisco Systems (CSCO) 51
Clemmer, Rick 37
 Coco-Mat 10
Cohen, Joshua 89
Cotchett, Joseph 62
Cox, Chris 68
Cox, Jeremy 68
 Credit Suisse (CS) 41
 CVC Capital Partners 26

DEFG

Dalian Wanda Group 19
Daly, Mary 18
 Datang Telecom Technology (600198:CH) 37
Derndinger, Julia 36
Diehl, Philip 33
 Dolphin Capital Investors 10
Dr. Dre 62
Drahi, Patrick 45
Drake 48
 Dropbox 35, 38
Dudley, Bob 16
 Duvel Moortgat 68
 eBay (EBAY) 26
 Editas Medicine 23
 Elbo Room 49



18
 Mary Daly

Eli Lilly (LLY) 47
 Enbridge (ENB:CN) 45
 Energy Transfer Equity (ETE) 45
 Facebook (FB) 47
Fairbank, Richard 41
 Fidelity Investments 43
 First Beverage Group 68
 Flagship Ventures 23
Fondevila, Isabel 49
Ford, Paul 6
 Ford Motor (F) 26
 Formula One 26
 Founders Brewing 68

Frank, Barney 29
Fushman, Ilya 38
 Gates2U 6
 General Mills (GIS) 26
 Gensler 47
Gischler, Victor 89
Goeler, Andy 68
 Goldman Sachs (GS) 16, 35
 Google (GOOG) 25, 35, 38, 47
Grossman, Ken 68
Gurle, David 35

HIJ

Hales, Charlie 56
Hall, John 68
 Harley-Davidson (HOG) 47
Hart, Mickey 84
 HBO (TWX) 90
 Health Net (HNT) 32
Hegar, Glenn 33
 Hennessy Large Cap Financial Fund 41
 Hermès (RMS:FP) 42
Hinojosa, Juan 33
Hobijn, Bart 18
 Home Properties (HME) 45
Houston, Drew 38
 HSBC (HSBC) 68
 HTC (2498:TT) 62
 Hugo Boss (BOSSY) 42
 Humana (HUM) 32
 IAmYoungAmerica.com (IBM) 51
Icahn, Carl 26
 IDC 38
 IHS 51
 Ikea 26
 Industrial & Commercial Bank of China (601398:CH) 44
 Infront Sports & Media 19
 Instagram (FB) 48
 Intel (INTC) 37
Iovine, Jimmy 62
 IRI 68
 Isrotel 20
James, Sly 51
 JD.com 44
Jindal, Bobby 29

KLM

Kalanick, Travis 56
 Kartenmacherei 36
Kintz, Justin 56
 KKR (KKR) 45
Koch, Jim 68
Kreutzmann, Bill 84
Kudrin, Alexei 16

Lagunitas Brewing 68
Lawson, Guy 89
 Lee Enterprises (LEE) 47
Lee, Noel 62
 Lenovo (992:HK) 38
Lesh, Phil 84
 Lion 92
Liu Yandong 19
 Live Nation Entertainment (LYV) 84
 Lone Star 45
 Lyft 56
Ma, Jack 44
Magee, Tony 68
 Mahou San Miguel 68
Mandvi, Aasif 90
 Martha Stewart Living Omnimedia (MSO) 26
Martin, Hugh 51
 Match Hospitality 19
 McKinsey 10, 19, 44
McManus, Sophie 89
McNamee, Roger 89
 MedXM 32
Merkel, Angela 10
Merkley, Jeff 29
 Microsoft (MSFT) 38
 Molina Healthcare (MOH) 42
 Momo (MOMO) 35
 Monoqi 36
 Monster 62
Morris, Nigel 41
 Motorola Mobility (992:HK) 38
Murphy, Mike 28
Musk, Elon 22

NOPQ

Nestlé (NES:NVX) 24
 Netflix (NFLX) 26
Novick, Steve 56
 NXP 37
Oberhelman, Doug 47
 Off Color Brewing 68
 1-800-Flowers (FLWS) 41
 OvaScience 23
 Oxford Economics 10
O'Neill, Caitlin 56
 Pandora (P) 62
Pauls, Alan 89
 PepsiCo (PEP) 92
Perry, Rick 29
 Pfizer (PFE) 56
 Philip Morris (PM) 56
 Phillip Securities Research 44
Piazza, Jo 89
Plouffe, David 56
 Polaris Partners 23
 Portales Partners 41
 PricewaterhouseCoopers 10

Procter & Gamble (PG) 92
Putin, Vladimir 16
 Qualcomm (QCOM) 37
Quant, Mary 92
Quartaroli, Peter 49

RST

Rauner, Bruce 47
 Renaissance Technologies 43
 Revolution Agency 28
Robbins, Tim 90
Roberts, Kevin 92
 Robinhood 35
Ross, Stephen 26
 Roxie Theater 49
 Royal Ahold 45
 Saatchi & Saatchi 92
Samaras, Antonis 10
 Samsung Electronics (005930:KS) 37
 Sam's Grill & Seafood Restaurant 49
 Sanford C. Bernstein (AB) 37
Schiegel, Felix 36
Schmidt, Eric 38
 Sears (SHLD) 26
 Second Curve Capital 41
 Semiconductor Manufacturing International (SMI) 37
Senior, Robert 92
 Sensity Systems 51
 Sequential Brands 26
Shaheen, Jeanne 28
Shapiro, Matt 49
Shapiro, Peter 84
 Siemens (SIE:GR) 51
 Sierra Nevada Brewing 68
 Simon Compliance 35
Simons, James 43
Simpson, Jessica 26
 Slack 35
Smith, Will 48
 SoftBank (9984:JP) 38
 Sony (SNE) 62, 90
 Spotify 62
 Sprint (S) 51
Srinath, Sri 47
Srinivisan, Nikhil 10
 Starbucks (SBUX) 25
Steger, Brooke 56
 Strategy 38
Summers, Lawrence 10
Swift, Taylor 48
Sykes, Lucy 89
 Symphony Communication Services 35
 Taiwan Semiconductor Manufacturing (2330:TT) 37
 Target (TGT) 18

3M (MMM) 45
 Third Rock Ventures 23
Tory, John 48
 Toyota (TM) 14
Trump, Donald 29
Tsipras, Alexis 16
 Twitter (TWTR) 28, 48

UVW

U.S. Money Reserve 33
 Uber 41, 56
Underwood, Gentry 38
 United Aircraft (UNAC:RM) 16
 United Shipbuilding 16
 Universal Music Group (VIV:FP) 62
 University of Texas Investment Management 33
 Univision 26
 Uralvagonzavod 19
Valcke, Jerome 16
 Vassiliou Trofinko 10
Villanueva, Daniel 26
 Vodafone (VOD) 38



38
 Dennis Woodside

Wal-Mart Stores (WMT) 25, 26, 29
Wales, Garrett 68
Wang Jianlin 19
 Washington Capitals 41
Watson, Kirk 33
 Wedbush Securities 37
 Weight Watchers International (WTW) 24
Weir, Bob 84
 Williams (WMB) 45
Woodside, Dennis 38

XYZ

Xi Jinping 19, 37
Yan Tang 45
Yellen, Janet 18
Zimmerman, Bruce 33

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Corrections & Clarifications

The graphic accompanying "The Inner Game of Larry" (Features, June 8-June 14, 2015) should have specified that the winnings for 2010 (\$7,020,280) and 2015 (\$10,762,466) were the total prize money figures, not just for the single men's champion.

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Opening Remarks

How Greece Can Save Itself

By Peter Coy and
Dimitra Kessenides

No matter what transpires, Greece will have to rebuild. It may take 10 to 15 years, but the country has the resources to do the job

A lot about Greece right now is obscured by the fog of financial diplomacy, but here's something we do know: The snow will fall again on the high peaks of Crete next winter, and in the spring, people will sit on the beaches with their toes in the sand and their eyes on the white mountains, and they will say that this is the gods' own country. What will matter for Greece once this crisis ends isn't balance-sheet entries but real stuff—like Crete; Kozani, the region that produces some of the world's finest saffron; Piraeus, the excellent deep-water port that Themistocles fortified in better days; and the vineyards thriving on the volcanic soil of Santorini.

Greece has underperformed since 146 B.C.E., when Corinth—and eventually the rest of Hellas—fell to the Romans. It's been in default on its sovereign debt for half the years since winning independence from the Ottoman Empire in 1832. Its economy is stultified by statism and corruption. But it remains blessed with breathtaking scenery, treasures of antiquity, and a creative, industrious people who have enjoyed great success—albeit more often outside Greece. Its potential is vast. If Greece can get its act together even a bit, this drama doesn't have to end in tragedy.

Scratch a glum Greek, and you'll find a bull. "I am optimistic that the forces that want to work and create things and develop things, in the end they will find a way," says Kostas Maltezos, chief commercial officer of Coco-Mat, an Athens-based retailer of Greek-made bedding and furniture with stores in the U.S. and Europe. "You see the beauty, and there is no way that this country can continue to exist like this," says Stelios Taketzis, a ship broker.

To be sure, it's hard to summon up positive thinking or a long-term focus when the immediate outlook is so dire. ("Greece will likely become a failed state" if it leaves the European Union, wrote former U.S. Treasury Secretary Lawrence Summers in the *Washington Post*.) The 26 percent decline in Greek output from its peak in 2007 is the equivalent of the U.S. losing the economies of California, Florida, and New York. Greece cannot pay back all €324 billion (\$362 billion) it owes on schedule. Depositors pulled funds from already debilitated Greek banks ahead of a June 30 debt-payment deadline. Greece and its creditors may be heading toward a "dirty compromise, what Americans would call kicking the can down the road," says Nikhil Srinivasan, chief investment officer of Assicurazioni Generali, the big Italian insurance company. That's better than immediate failure but worse than resolution.

Given how bad things are, it's almost unfathomable that only last September there was a sense Greece was turning ►

The Ruins of Athens

Eirini Vourloumis's "In Waiting" explores of the country's financial plight

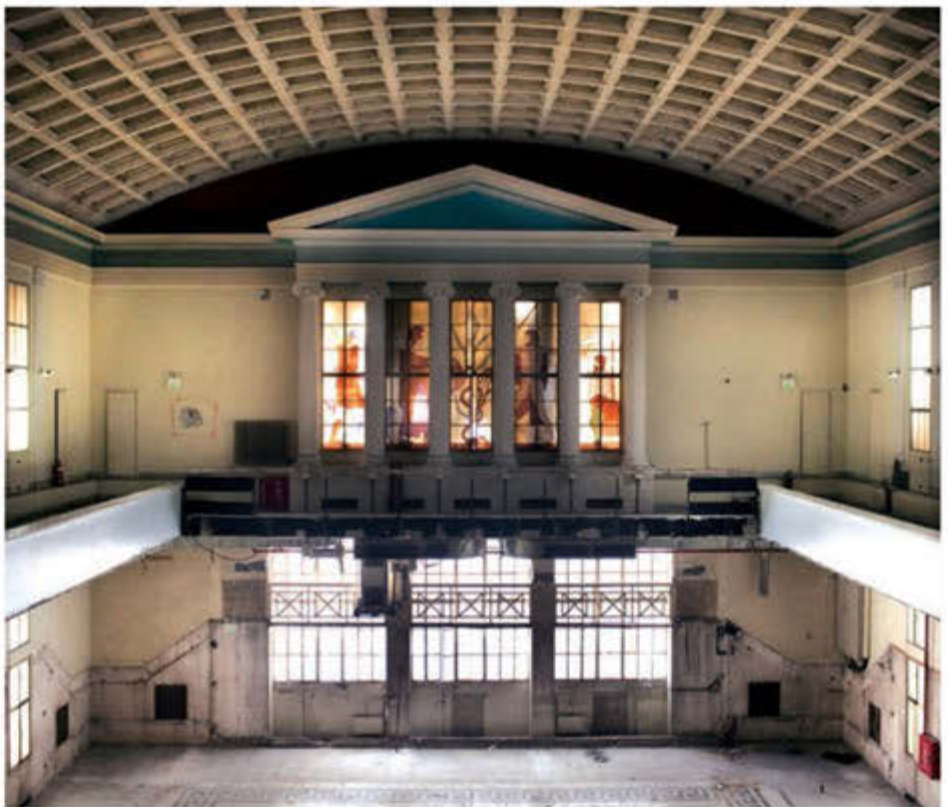


The Omonia Square district



The Evelpidon Court House

the city as an expression



The old Stock Exchange on Sofokleous Street



Mural in tribute to Greek labor at the former offices of the Ministry of Employment

◀ the corner. Ten-year government bonds yielded less than 6 percent (vs. 11 percent on June 24), a vote of confidence by the world's investors. That month, Standard & Poor's upgraded the sovereign credit rating from B- to B (it's now slipped to CCC). "The first tender shoots of success are visible," German Chancellor Angela Merkel said at a press conference in Berlin with Greece's then prime minister, Antonis Samaras.

Things were going in the right direction. Under pressure, Greece was ratcheting back pensions that gave retirees 96 percent of their salaries on average and provided extra benefits for "arduous" jobs such as steam-bath attendant and radio technician. As red tape unraveled, Greece shot up from 108th in the world in 2008 to 61st this year in the World Bank's ease-of-doing-business ranking. Xenophon Lourantos, general manager of Vassiliou Trofinko, a frozen seafood producer, says bureaucrats used to levy frivolous fines on companies even when no rules were violated. Now, he says, "they can accept leaving the company alone without imposing a penalty."

That progress was undermined by negotiators on both sides. The European creditors formerly known as the troika—made up of the European Central Bank, the European Commission, and the International Monetary Fund—balked at Samaras's budget, seeking deeper cuts. Their austerity demands backfired by fueling support for the left-wing Syriza Party, which won snap elections in January on a pledge to reject cuts, roll back reforms, and stop privatization. Syriza has behaved amateurishly. By frightening away investors and antagonizing official creditors, it has brought Greece to the brink of default and a chaotic exit from the euro zone.

Greece would have to make deep and painful changes even if creditors gave the country everything it's asking for, which isn't happening. The point remains, though: Improvement is within reach. "Nothing has changed in the fundamentals since last year," says Vicky Pryce, a Greek-born economist who is author of *Greekonomics: The Euro Crisis and Why Politicians Don't Get It*. No matter what transpires, Greece will have to rebuild. It may take 10 to 15 years, but the country has the resources to help save itself.

There's no shortage of free advice for how Greece can get its act together. McKinsey's Athens office produced a 2012 study called *Greece 10 Years Ahead* that emphasized increasing export income. PricewaterhouseCoopers issued a similar report in 2013 called *Directions for Economic Recovery in Greece*, advising a shift from government spending to private investment. The World Bank, the IMF, and the EU have also pressed

The crisis may force change on toxic Greek politics and the governments that emerge from the feuding

their favorite ideas on the Greeks.

Tourism is mentioned in nearly every pitch. It can grow even when the rest of the economy is floundering: Last year was a record for visitors. Astoundingly, many choice locations have been occupied by decrepit government-owned hotels. The Xenia chain is now being privatized. Still, going upscale isn't easy, says Miltos Kambourides, co-founder of Dolphin Capital Partners, whose Amanzoe resort on the Peloponnese peninsula has rooms starting at €1,600 a night. One problem: Greek banks aren't lending for hotel projects—or much of anything else.

Greece also remains short on amenities. Crete has one golf course while Spain's Mallorca has 25, despite being one-third Crete's size, says Axel Werner, owner of Luxury Properties, a Greek real estate company. McKinsey's study urged Greece to develop better air connections, build cruise embarkation points, streamline hotel licensing procedures, and turn itself into a year-round destination.

Greek shipowners control cargo vessels worth \$106 billion, more than any other country. So the industry seems a natural source of more money. However, a lot of the employees in Greek shipping aren't Greek, and under the constitution, the industry pays no tax on international earnings brought into the country. Last year the Union of Greek Shipowners agreed to pay a higher tonnage tax in the three years from 2014. The Syriza government has tried to extract more taxes, but shipowners are threatening to move to lower-tax locales.

Ports and logistics are a better opportunity. Proving the point is China Ocean Shipping Group, known as Cosco. With Cosco as a major new tenant in the port of Piraeus, cargo volume has grown at a 13 percent annual rate since 2007. It's the first big deep-water port that ships can reach when sailing west from the Suez Canal. Yet before Cosco, Piraeus wasn't even served by a freight railroad. With more investment in rail and other infrastructure, it could easily become a main gateway to the Balkans and central Europe, competing with Rotterdam and Hamburg, says Dirk Reinermann, program manager for Southern Europe at the World Bank, citing Cosco estimates.

Greece's state-run universities could do more to promote growth. Its graduates lack skills for careers in growing industries such as technology and pharmaceuticals; Greeks

who go abroad to study those fields don't always come back. The schools could also collaborate with companies to develop a startup community.

There's much more, of course. McKinsey highlights opportunities in generic drugs, aquaculture, medical tourism, elder care, and specialized foods. (Greece could bottle more of its own olive oil, instead of shipping olives to Italy.) But nothing can happen without structural change. Labor reforms are essential. Greeks work longer hours than Germans on average, but they quit young. Even before the crisis, only 43 percent of 55- to 64-year-olds were working, vs. 51 percent in Germany and 62 percent in the U.S.

The justice system remains an obstacle to foreigners and Greeks interested in doing business. "There is almost zero legal protection for investors," says Elias Papaioannou, associate professor of economics at the London Business School. Routine disputes can take five years to resolve; a civil case brought today might not be heard before 2019. Public administration also needs to be updated and computerized, not just to collect data to help with governing but also to monitor officials and hold them accountable.

The crisis may force change on toxic Greek politics and the governments that emerge from the feuding. Membership in the euro zone has clearly tempted Greek administrations to live beyond their means, but it doesn't follow that leaving the euro and the EU would be beneficial. Greece will need official lending from Europe for as long as private investors stay away. It also needs foreign know-how. Most of all, it needs non-Greeks—that is, foreign bankers and EU officials—to blame for painful but necessary measures like pension reform.

In the worst case, Greece could spiral down like Venezuela, where gross domestic product per capita is 15 percent lower than in 1980. But Greece has rebounded in the past: Its economy recovered strongly after the Nazi occupation of World War II, even though it was in default from the Great Depression until 1964. "We find it plausible that, once the crushing economic impact of the ongoing crisis is removed, Greece will enjoy a period of growth well above trend," wrote Gabriel Sterne, head of global macro research for Oxford Economics in London, in a June 15 report.

Someone asked Adam Smith if Britain was ruined after losing a key battle with its rebellious American colonies in 1777. "There is a great deal of ruin in a nation," he calmly replied. Greece's golden age is ancient history, and it has witnessed much ruin. But if creditors help, the country can fix itself—and find a way to pay its bills. **B**
—With reporting from Maria Petrakis



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Toyota's Latest Hybrid Isn't a Car

Its new shares are intriguing even if you doubt the company's rationale



On June 16, Toyota shareholders approved the issuance of 50 million new shares—and not just any new shares. The securities are a curious hybrid: They look like stock but behave more like convertible bonds. If you're interested in the quality of corporate management, it's an innovation worth watching.

The new "Model AA" stock, named after the automaker's first passenger car, locks in owners for five years. Sold only to Japanese, the shares carry voting rights but aren't listed on any exchange. At maturity, holders can sell them back to the company at the issue price or convert them to ordinary stock. During the lockup, Toyota will pay a guaranteed dividend that increases each year.

What does that have to do with corporate management? The idea, according to the company, is to raise patient money so Toyota can invest in the car of the future. "Patient" is the key: The company's managers see locked-up investment as an antidote to the short-termism of the stock market. Sheltered from some of the pressure to drive up the stock price immediately and fend off activists—even at the cost of longer-term success—they'll be able to look further ahead and do a better job.

Many investors have questioned that rationale, and their suspicions may be justified. A new Japanese law aims to encourage companies to sell large blocks of shares they hold in one another. Such cross-shareholdings have long allowed Japanese managers to shield themselves from activist investors, notably U.S. hedge funds. The new shares will partly offset that reform. Model AA shares are less suited to hedge funds and more to Japanese retirees, who'd be less of a nuisance to managers.

Toyota says it isn't trying to bypass the new rules. This would be easier to believe if it planned to sell the shares internationally rather than just to Japanese investors. Toyota could go some way toward answering its critics by making that change.

But here's the larger question: How much protection do the (supposedly) farsighted managers of public companies need from their (supposedly) short-termist owners? Plenty of evidence suggests that short-termism is a real problem and corporate-governance reform needs to address it. But it would

be easy to go too far and give lazy, overpaid managers a quiet life.

There's no clear answer, and that's exactly why experimenting with different forms of financing is valuable. If the hybrid concept works, it will give Toyota a long-term advantage, and as that becomes apparent, other companies could follow its lead.

The exact features of Model AA shares won't be suitable for every company, but the innovation is welcome. Let companies experiment with different combinations of lockup periods, voting rights, dividends, and rights to cash flows. Let stockholders choose how long they're willing to commit themselves in exchange for protection from short-term risk. The thing about experiments is that they sometimes fail. Still, hybrid securities look promising, and they're worth a try.

How Toxic Is Your Sofa?

The EPA needs more power to impose restrictions on chemicals

From the formaldehyde in your floorboards to the phthalates in your nail polish to the flame retardants in your upholstery, substances that can be toxic to humans are in countless everyday products. The Environmental Protection Agency is supposed to ensure that they're safe when used by consumers, but its hands are largely tied: The 1976 law that governs chemical regulation declares that, before limiting the use of any substance, the agency must show that its restriction is less burdensome than possible alternatives and the financial benefits outweigh the costs. That standard has been hard to prove in court. The EPA hasn't issued restrictions on chemicals since 1990.

Many states have rushed in to fill the vacuum, but this isn't ideal, either. If a chemical is proved to be dangerous to you or your children, protection from it shouldn't depend on which state you live in. (Conversely, if a chemical is proved to be safe, access to it shouldn't depend on where you live.) Manufacturers are left trying to follow sometimes contradictory regulations.

A better fix is to update federal law to give the EPA the authority and resources to investigate—and, when necessary, restrict or ban—chemicals used in commercial and industrial products. Bipartisan legislation in Congress would move in this direction by making it easier for the EPA to impose curbs on chemicals it deems unsafe and by requiring the agency to review at least 25 chemicals every five years.

The bill isn't perfect. It would also prevent states from putting restrictions on any chemicals the EPA says it plans to examine—a process that can take years. And it would enable the agency to approve vaguely defined "low-priority" chemicals without a full-scale review. If for some reason the EPA were to lose interest in such regulation, state efforts could be blocked without much to replace them. Congress could address this concern by amending the bill to let states decide whether to apply their own restrictions on a chemical until the EPA has finished its review.

This would go a long way toward easing concerns that the stuff in your living room or medicine cabinet is going to kill you. **B**



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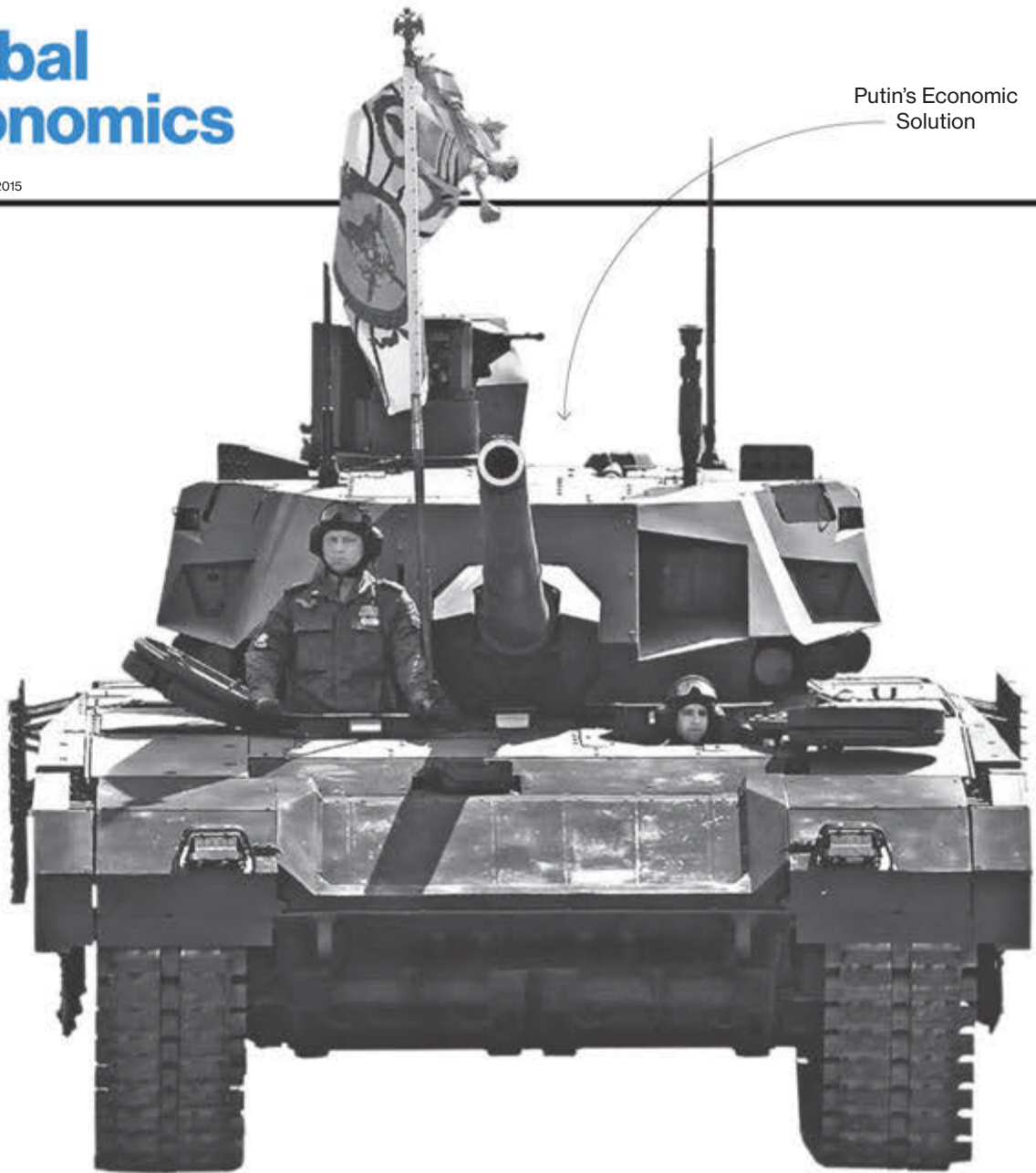


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- ▶ As Russia's recession continues, the Kremlin plans to spend \$426 billion on defense through 2020
- ▶ "The government has two urgent tasks: strengthening security ...and promoting innovation"

Greek Prime Minister Alexis Tsipras, whose country is fighting to stave off financial collapse, was a guest of honor at Vladimir Putin's annual investment showcase, on June 18-20, along with top officials from China and Myanmar. The event in Putin's hometown of St. Petersburg drew top European oil executives, such as **BP's** Bob Dudley, and a few U.S. business leaders, as well as former British Prime Minister Tony Blair. But the attendance paled in comparison to past forums, when banking titans such as **Goldman Sachs** Chief Executive Officer Lloyd Blankfein

queued up to pay their respects to Russia's president.

The smaller number of heavyweights at the forum underscores the isolation of Putin and Russia. Foreign direct investment has declined for the last two consecutive quarters. The economy is expected to spend this year and next in recession, assuming oil stays stuck around \$60 a barrel. The ruble is down 40 percent from its 2013 highs. Putin's plan is to wait for oil to rebound, and keep expanding the power of state enterprises, which now account for more than half the economy, up from 30 percent

when he became president in 1999.

There's one area of growth, though, that some analysts see as Putin's version of a stimulus: Military spending. "It's clear that the efficiency of the military-industrial complex is the most important source of economic growth," Putin said at a military forum on June 16.

On May 12, Putin signed documents creating what he called the "industrial battalions" program, which will give thousands of draftees the option of working in defense enterprises instead of joining the regular military. According to federal budget accounts,



after years of chronic funding problems for weapons makers, Russia has started to prepay for goods and services it buys from the defense industry, which employs 2.5 million Russians.

Defense, national security, and law enforcement now eat up 34 percent of the Russian budget, more than double the share in 2010. That dwarfs the 18 percent spent by the U.S. last year on defense and national security, according to the Washington-based Center on Budget and Policy Priorities. Still, Americans spent \$615 billion last year, while the Russians spent \$84 billion.

"The government has two urgent tasks: strengthening security at all levels of society and promoting innovation to end the macroeconomic stagnation," says Ruslan Pukhov, director of the Centre for Analysis of Strategies and Technologies and a member of a defense ministry advisory board. "The solution to both problems is to intensify the development of the military-industrial complex."

State-run defense contractors stand to benefit: **United Aircraft**, which makes Sukhoi and MiG fighter jets; **United Shipbuilding**, now building a new fleet of destroyers; and **Uralvagonzavod**, maker of the brand-new T-14 Armata tank. (Each tank costs about \$4 million to \$5 million to make. Mass production won't start anytime soon.)

Putin's former finance minister, Alexei Kudrin, has voiced his opposition to plans to spend 23 trillion rubles (\$426 billion) through 2020 on defense. Kudrin says the defense buildup does little to solve Russia's structural problems and the crisis it faces.

Putin, who warns of a threat from the West and the need for more self-sufficiency, has vowed to spend the full amount budgeted for the military. He's already ended the Russian military's purchases from abroad, so the army will buy only from Russian suppliers.

The reformers in Putin's cabinet would prefer to see their boss cut defense spending and focus instead on overhauling the courts, cutting red tape for small businesses, and stamping out corruption, according to government sources. In his keynote address at the forum, Putin addressed the need to ease bureaucratic barriers that business faces but did not provide any concrete

steps for doing so. Instead, he said that the economic crisis predicted by many at the end of last year didn't materialize. His government "stabilized the situation," even though the economy slid into its first downturn in six years. Putin said at a June 18 meeting with executives that he expects energy prices to remain low for one to two years, but Russian business has adapted to the situation.

He's confident energy prices will rise again. As he said at his annual press conference in December, "even if energy prices remain low or continue to decline, there will come a time when energy prices will resume growing when the global economy and the demand for energy grow. I'm absolutely confident that this will happen." High oil prices and a state-dominated economy delivered average annual growth of 7 percent during his first two terms, and Putin figures they will bring prosperity back to Russia.

"Putin's model is an efficient symbiosis of feudalism and open markets," says Andrey Movchan, a longtime Russian investment banker who's now an analyst at the Carnegie Moscow Center, the Russian branch of the

Washington research center. "But his view of the world underestimates the speed of modern development. We're rushing into a phase when energy will cost a degree less and intellectual property a degree more." —Henry Meyer, Andrey Biryukov, Evgenia Pismennaya, and Ilya Arkhipov

The bottom line Putin is relying on oil exports, state-owned companies, and record defense spending to pull Russia out of recession.

Exports

Old Man River Needs Some Work Done

► Locks keep U.S. inland waterways navigable—but they're falling apart

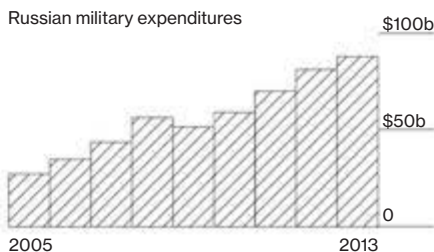
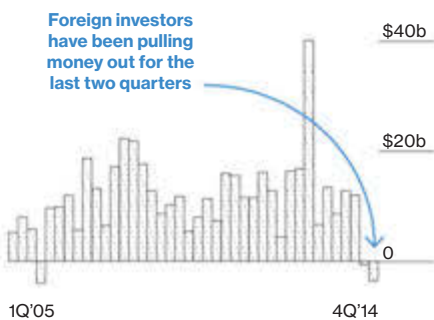
► "The thought was the locks would last 50 years"

One of the essential elements of infrastructure in the U.S. is the river lock. Most locks close off a 600- to 1,200-foot stretch of river and raise and lower the water in the sealed-off chamber. Towboats and barges enter and exit the locks to travel between sections of river that are at different levels. The U.S. has 242 locks in operation on 12,000 miles of navigable waterways. In 2013, \$216 billion in freight moved along them, including the Mississippi, Ohio, and Illinois rivers. Moving oil, coal, soybeans, and cement by barge is much cheaper than by rail or highway: Without the locks, such low-cost shipping would be nearly impossible.

The locks are in dire need of repair and replacement. Mechanized gates get stuck, and chunks of concrete are falling off walls battered by barges. In October 2011 a 280-foot section of wall by the Lockport Lock in Illinois crumbled into the water. In 2013 the Algiers Lock in Louisiana was shut down for four months to repair an underwater part that failed. The shutdown cost businesses \$146 million in lost revenue and the expenses of rerouting cargo along other waterways. Some of the hydraulic motors powering the locks were installed in the 1930s. Many of the older locks with 600-foot-long chambers

Revving Up the War Machine

Net foreign direct investment in Russia



FIGURES IN U.S. DOLLARS
DATA: CENTRAL BANK OF THE RUSSIAN FEDERATION, WORLD BANK

are too small to accommodate the towboat and its typical 15-barge load: The boats have to split up the barges and make two trips through the small locks.

The U.S. Army Corps of Engineers, which manages the system, “continues to Band-Aid the locks to keep them operational,” says Kim Ekena, vice president of **Archer Daniels Midland’s** American River Transportation. “The thought was the locks would last 50 years. We are getting to a point where we are talking about 70 or 80 years.” Congress authorized improvements last year and in 2015 hiked a tax on diesel fuel to help finance them. Yet the Waterways Council, which represents barge operators, shippers, and river ports, estimates that \$9.2 billion in essential construction and repairs remains unfunded.

The U.S. faces a serious rival in Brazil, which since 2007 has been investing in its transportation infrastructure, including river ports to ship soybeans and other commodities for export from large farms in the interior. It has become a top soybean exporter. U.S. market share of soybean exports dropped from 71 percent in 1992 to less than 50 percent today, according to a February 2015 report by the U.S. Department of Agriculture. The U.S. share could drop further, according to the report.

As the Brazilians keep improving the efficiency of their river freight system, while U.S. river locks struggle to keep cargo moving, buyers of U.S. commodities may tilt more to Brazil. U.S.-based

agriculture companies **Archer Daniels Midland**, **Cargill**, and others have been investing in ports and barges in the Amazon to help meet demand from China, the No. 1 soybean importer, as well as other nations. Says Mike Toohey, president of the Waterways Council, “If we’re not prepared, commerce will flow to where you get the best price and reliability.”

Brazil may be in a better position to benefit when the expansion of the Panama Canal is finished next year. The upgraded canal will feature a new lane for bigger ships. As a result, the canal’s cargo capacity will double. With shorter waiting times to get through the canal, more ships will travel more quickly to pick up their Asia-bound cargoes at U.S. and Brazilian ports in the Gulf and on the Atlantic.

Lower transportation costs rather than production costs have kept U.S. soybeans competitive globally, says Mike Steenhoek, executive director of the Soy Transportation Coalition. “If we have these failures at our locks, that will insert a cost into the system. Any kind of benefit you could potentially realize from the Panama Canal expansion will really be moot.”

The Army Corps of Engineers keeps applying those Band-Aids. Michael Cox, chief of operations for the Corps’ Rock Island district, which oversees 20 locks and dams along the Mississippi River

and the Illinois Waterway, is encouraged by some recent increases in funding. But he’s still “very concerned because what we are currently doing cannot be sustained for the long term.” —*Shruti Date Singh*

The bottom line Many of the river locks in the U.S. date from the Depression and may not be able to handle increased demand.

Wages

The Dropout Influencing Fed Policy

► Mary Daly’s rocky start informs her research on workers’ pay

► “People ... lived or died based on whether their job fell through”

Mary Daly dropped out of high school at 15 and supported herself delivering donuts. Now the 52-year-old economist is helping shape Federal Reserve chief Janet Yellen’s understanding of the job market. As associate research director at the San Francisco Federal Reserve, Daly has delved into one of the biggest mysteries of the six-year economic recovery: With unemployment rapidly declining from a peak of 10 percent in October 2009, why have wages been slower to accelerate than economic theory would suggest?

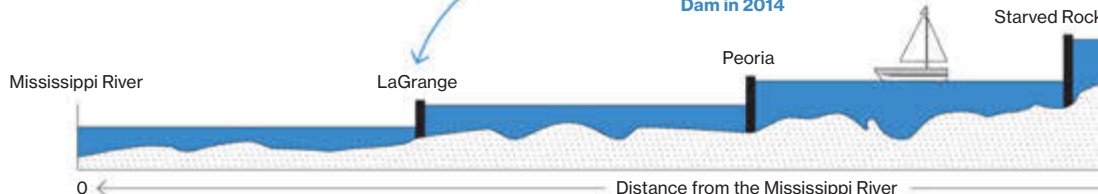
The Creaky Elevators Of the Illinois Waterway

A system of eight river locks allows boats to navigate the roughly 160-foot drop (or incline, if you’re heading north) along the Illinois River and a system of smaller waterways connecting Lake Michigan to the Mississippi River. The locks work by walling off small areas of the waterway. When a towboat and its barges enter the mechanism, the water level is lowered (or raised) to match the level on the destination side. Commercial vessels rely on the system to transport millions of tons of fuel, chemicals, manufactured goods, and food each year.



In 2011 a 280-foot section of a wall near Lockport Lock and Dam collapsed into the water

26 million tons of cargo passed through LaGrange Lock and Dam in 2014



"She knows what it's like to live paycheck to paycheck, to be intimidated by going to college."
—Jody Hoff, San Francisco Fed

Daly's work sheds light on "questions of central importance to policymakers," Fed Chair Yellen said in an e-mail. Officials want to see a pickup in wage inflation as they look to raise interest rates from near zero, where they've been since 2008.

Daly's interest in economics was informed by her observations growing up in Ballwin, Mo., about 20 miles from St. Louis, the daughter of a postman and a stay-at-home mother. "People lived on such a margin that they lived or died based on whether their job fell through," she says. "That made me really interested in the labor market, interested in how people could be on this knife's edge of climbing up the economic ladder or falling down into the trench."

Her family life unraveled when her parents divorced and their four children dispersed. After leaving school, Daly began living on her own at 16. Driving a doughnut delivery truck was among the jobs she took to make ends meet, along with working at a deli and in the lingerie department of the local Target. "My aspirations at that time were to get a better department at Target," she says.

That's when an adult friend and mentor Daly had met through her high-school counselor stepped in. Betsy Bane urged Daly to complete her high school equivalency, then persuaded her to take classes at the University of Missouri at St. Louis and later to attend the University of Missouri at Kansas

City full time. "She blew the top off of the GED without too much preparation," Bane says. "I thought, What a waste if she doesn't get a degree."

College was a tough adjustment. As she tried to balance school and work, Daly was failing two classes midway through her first semester. An academic counselor got her a tutoring job in the college. Through teaching others, Daly learned how to study well herself.

Daly went on to earn her master's in economics at the University of Illinois at Urbana-Champaign and then a doctorate at Syracuse University in New York. After completing post-doctoral research at Northwestern University, she started as an economist at the San Francisco Fed in 1996, where she focused on labor. When Yellen, herself a labor economist, became San Francisco Fed president in 2004, she asked for a national labor-market report as part of her briefing before meetings of the Federal Open Market Committee, the policymaking body made up of Fed governors and regional bank presidents. Daly began regularly updating Yellen on national labor issues.

Then came the 2007-09 recession. As the recession eased and the labor market began to recover, macroeconomic models failed to explain why the decline in unemployment didn't bring about the rise in wages that historical patterns predicted. That's where Daly came in. In a January 2014 paper, she and colleague Bart Hobijn used hourly earnings data to show that so-called wage rigidities, in which employers avoid cutting wages in a downturn and are slow to raise them in its aftermath, may have held down wage inflation following the last three recessions.

When asked during a March 27 speech in San Francisco what research papers she'd been thinking about, Yellen cited the work. Daly's findings haven't gone uncontested. A new Federal Reserve Board paper by Ekaterina Peneva and Jeremy Rudd finds employers weren't as reluctant to cut wages during the recession as Daly and Hobijn's results implied. As Daly's work provokes additional research "we'll get greater and greater clarity around this," says San Francisco Fed President John Williams.

Daly is helping start a series of podcasts to make Fed research accessible to a wider audience. Says her



Daly

collaborator Jody Hoff, who works in economic education at the San Francisco Fed, "She knows what it's like to live paycheck to paycheck, to be intimidated by going to college, and that everydayness about her absolutely masks her accomplishments."

—Jeanna Smialek

The bottom line Daly's and Hobijn's work on labor rigidities offers a theory for why wages have risen so slowly in this recovery.

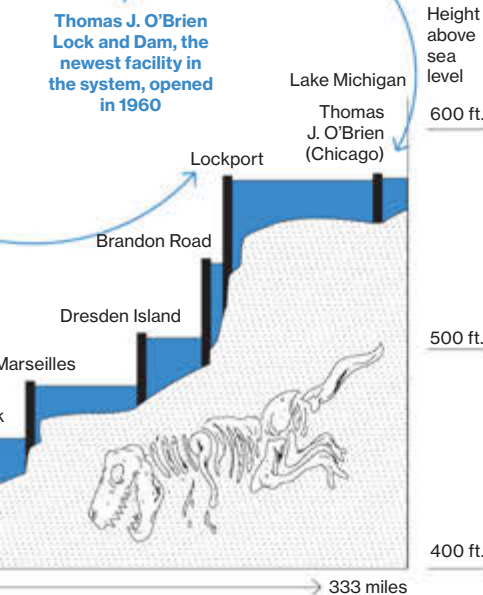
Sports

How China Stepped Into The FIFA Mess

- ▶ Its richest man buys a sports company run by Blatter's nephew
- ▶ The deal "would be of little value if it's...based on personal connection"

On May 29, Wang Jianlin, China's richest man, sat smiling in the first row of a Zurich conference hall where FIFA President Sepp Blatter would be elected to a fifth term as soccer's top boss. At Wang's side sat Philippe Blatter, nephew of the FIFA leader and chief executive officer of **Infront Sports & Media**, a marketing company that does millions of dollars in business with FIFA. Wang's **Dalian Wanda Group** had bought Infront in February, a deal Wang said would help China raise its profile in global soccer and help it to play host to a World Cup.

Soon after Wang made his entry ▶



◀ into the Blatter family's orbit, however, others began distancing themselves from FIFA's chief. On June 2 the 79-year-old Swiss executive announced his resignation. Combined with a sweeping U.S. corruption case against other senior FIFA officials, the resignation raises a question for Wang: Now that Wanda's \$1.2 billion purchase of Infront has opened a channel to the Blatters, do those connections still matter?

Infront, based in Zug, Switzerland, has worked with FIFA since 1997. Philippe Blatter became CEO in 2006. In 2011, FIFA awarded Infront rights to sell television contracts to the 2018 and 2022 World Cups in 26 Asian markets, including China. The company also owns a share in FIFA's Match Hospitality, which sells luxury boxes and premium seats at the World Cup. Match Hospitality said it had record sales of \$262 million at the 2014 tournament in Brazil. It's also secured rights to the 2018 and 2022 events. FIFA makes up 10 percent to 15 percent of Infront's business, which includes working with 160 media rights holders in various sports and managing 90 percent of World Cup skiing events, according to the company.

\$800_b

Wanda's estimate for the size of China's sports market by 2025, up from \$8 billion this year

tell them of the agreement, which paid McKinsey about 12 million Swiss francs over two years to restructure FIFA, according to documents reviewed by Bloomberg. The executives didn't criticize Philippe Blatter but said his employment at McKinsey created a conflict of interest for his uncle. A spokeswoman for McKinsey, Rachel Grant, says the firm never comments on clients and that Philippe Blatter left McKinsey in 2005 to work for Infront. Delia Fischer, a spokeswoman for FIFA, says Philippe was not the McKinsey partner responsible for the

FIFA project. There's no indication that the McKinsey agreement or Wanda's purchase of Infront has interested U.S. or Swiss investigators.

Asked about possible conflicts of interest between Infront and FIFA, Infront spokesman Jörg Polzer referred to statements the company made when FIFA awarded Infront the rights to sell TV contracts. At the time, Polzer said Philippe Blatter wasn't directly involved in the talks over the World Cup contract: "We believe our offer was the most competitive package to FIFA." Wanda declined to comment.

In a Chinese TV interview in March, Wang said the success of the Infront purchase wasn't tied to Sepp Blatter: "The purchase would be of little value if it's completely based on personal connection." Wanda anticipates China's domestic market for sports beyond soccer will grow from \$8 billion this year to \$800 billion by 2025, including media rights, licensing, merchandise, and sports-facility operations.

Wang's enthusiasm for soccer dates to the 1990s, when his investment turned a team in Dalian, Wanda's home base, into a four-time national champion. The success made Wanda a national brand. Wang has said that his decision to purchase Infront was influenced by a request from Liu Yandong, the vice premier who is in charge of China's soccer development. "Comrade Yandong spoke to me in person, hoping that I would take the task to help rebuild Chinese soccer," Wang said in 2011.

Chinese President Xi Jinping's commitment to soccer is clear, despite the Chinese national team's global ranking of 79. In March, Xi's government said it would quadruple the number of soccer academies to 20,000 by 2020. Wang has bankrolled a program that sends promising Chinese children to live and train with three clubs in Spain.

Blatter's announced resignation may hinder Wang's efforts to build China into a soccer powerhouse. "With the purchase of Infront, Wang plays the role of a bridge,"

through his ties to FIFA and China's leaders, says Ma Dexing, editor-in-chief of China's largest sports website, *Titan Sports*. "Now it is snapped before work could begin, and they

have to find another bridge."

A day after Blatter's election, FIFA executives agreed the 2026 World Cup wouldn't be held in Asia because the 2022 games will be in Qatar, an Asian nation. The 2030 Cup is the earliest China could host, unless a Swiss criminal probe into how Russia and Qatar won host rights for the next two World Cups forces FIFA to change locations for 2018 and 2022.

The day before Sepp Blatter was reelected, Wang met with him and FIFA General Secretary Jerome Valcke. "Blatter promised strong support from both FIFA and himself towards developing football in China," Wanda said in a statement. "He believes Wanda's acquisition of Infront will positively influence football in China."

During their talks in Zurich, Blatter said he would support Beijing's bid for the 2022 Winter Olympic Games, according to Wanda's website. As a member of the International Olympic Committee, he is still eligible to vote in July to pick Beijing or Almaty, Kazakhstan, as host. Philippe Blatter may be of help as well. "A major asset for Infront is its influence on winter sports," says Ma, the sports editor. "China's bid for the 2022 Winter Games needs to borrow the power and influence of Infront." —*Tariq Panja and Alex Duff, with bureau reports*

The bottom line China wants to host the World Cup and become a serious contender in global soccer.

Immigration

Israeli Hotels: Don't Deport the Africans

▶ As expulsions increase, hoteliers ponder where they'll find workers

▶ "Behind every fancy dish, every clean hotel room, there is" an African

Israeli-born David Blum is proud of his country's history as a refuge for the persecuted. Why then, he asks, is the government stepping up efforts to deport African refugees? For Blum, the human resources chief at **Isrotel**, a hotel operator, the policy is also bad business: The Africans are the backbone of the restaurant and hotel industry.

More than 45,000 African asylum





12%

Decline in number of
migrants living in Israel
from December 2013 to
December 2014

145%

Increase in deportations by
Israel from 2013 to 2014

African asylum
seekers at the
Holot detention
facility

seekers—whom critics refer to as *mistanenim* (infiltrators)—reside in Israel, up from 3,000 in 2006, according to government statistics. Many Israelis say the migrants, mostly Muslims and Christians, threaten security and the country's Jewish identity. In March the government instituted a program that speeds deportations and imprisons migrants who refuse to leave. "The State of Israel will not be the solution to the ills of Africa," Justice Minister Ayelet Shaked said in a radio interview last year. Most of the Africans seeking asylum "are not refugees but labor migrants," she added. In early June, Shaked said a "tough law" will discourage Africans from coming to Israel.

The migrants, mostly from Sudan and Eritrea, work in all manner of service jobs and account for about half of Israel's 7,000 hotel maids and dishwashers, according to the Israel Hotel Association. "Behind every fancy dish, every clean hotel room, there is an Eritrean or a Sudanese," says Daniel Assaf, a cook at Claro, a restaurant in Tel Aviv. "Who exactly does the government think will fill those jobs? Israelis don't want them."

A visit to Claro's kitchen illustrates the dilemma. While Assaf, an Israeli Jew, seared the calamari and steamed the kale, Johnny Teame, an Eritrean, cut

and seasoned the meat in the back. Five years ago, Teame traveled eight days from Sudan in a cramped Toyota with little water or food. The traffickers who organized the trip and charged Teame and the others thousands of dollars dropped them near the Israel-Egypt border, and gave them shovels to dig a hole under the fence. After getting into Israel the refugees trudged through the Negev until Israeli soldiers spotted them.

Teame spent three weeks in detention before he got a visa as an asylum seeker—and a bus ticket to Tel Aviv. He made his way to a park near the Tel Aviv bus station where migrants gather. With help from people he met there, he soon found work, and eventually ended up at Claro. "My life in Israel is all I have," he says. Returning home is out of the question for fear of imprisonment or worse. "I may never see my family again."

Over the past six decades, Israel has approved just 200 asylum claims for refugee status, which allows indefinite stays, according to the nonprofit Hotline for Refugees and Migrants. Thousands of others have been deported or are required to renew their visas every few months, with deportation a constant possibility.

In 2013, Israel finished a 152-mile fence along the Egypt border. Fewer than 70 migrants have made it into

Israel since, vs. more than 10,000 in 2012, government statistics show. The government recently began sending letters to some migrants giving them 30 days to choose between leaving for an African country—with a \$3,500 grant—or indefinite detention.

Before leaving the tiny apartment he shares with two friends, Musa Keeso makes sure he has his visa and receipts for his mobile phone and bicycle. He says the police once accused a friend of theft because he couldn't show a receipt for his phone. Israeli police say they aren't targeting Africans, but they do carry out identity checks and sometimes ask for receipts.

Keeso says he was tortured in a Khartoum displacement camp. If he went back he would face prison for visiting an enemy state. "It's crazy to think we would come here for the money," Keeso says. While he's happy earning about \$1,000 a month stocking merchandise at a department store, he feels unwelcome. "Here you feel like you're losing your future."

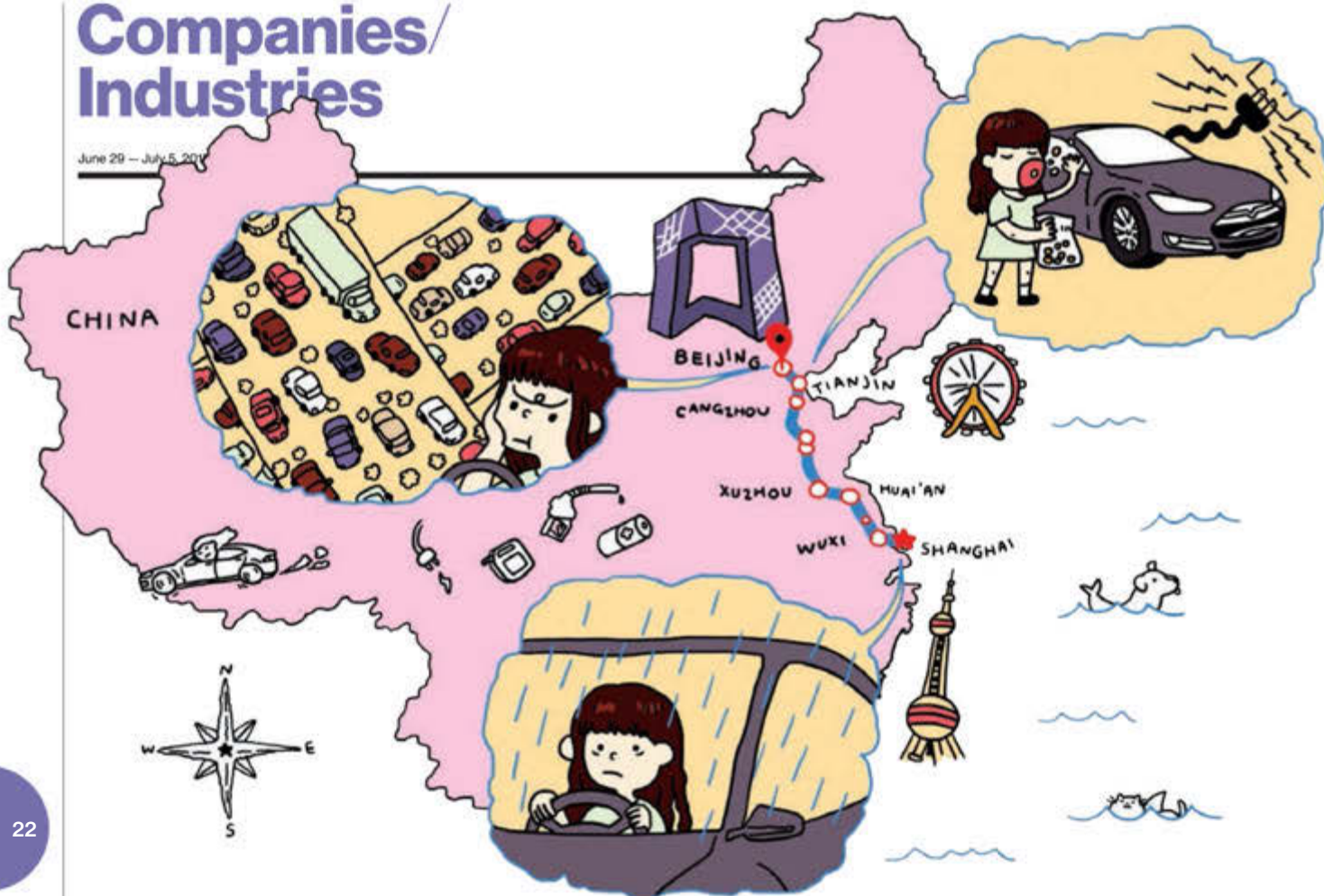
—Yaacov Benmeleh and David Wainer

The bottom line As Israel steps up pressure on African asylum seekers, many must choose between deportation or detention.



Edited by Christopher Power
Bloomberg.com

June 29 – July 5, 2015



Tesla's Most Excellent Adventure, China Edition

- ▶ The electric carmaker has high hopes in China. But anxiety about availability of power hurts sales
- ▶ “If charging stations were as ubiquitous as gas stations, I’d be keen to buy”

It’s a drizzly Monday morning along Shanghai’s waterfront Bund district. My black Tesla Model S 85 is inching through rush-hour traffic as I embark on a 1,300-kilometer (807-mile) journey to Beijing. This is no ordinary road trip. I’m out to test **Tesla Motors** founder Elon Musk’s statement in February that Chinese drivers are needlessly worried about the logistics of owning electric vehicles—that it’s tough to power them up. “This is false,” Musk told analysts on a conference call. “It is not difficult to charge your car in China.”

Musk has good reason to want to reassure mainland drivers. Tesla has big ambitions in the world’s biggest auto

market. Doing well here would help the company reach its target of delivering 55,000 vehicles globally in 2015. Musk enjoys rock star adulation in the Chinese press, and there’s no shortage of wealthy consumers who can shell out the \$100,000-plus needed to buy a Model S on the mainland.

However, the luxury electric vehicle maker has had what Musk calls “unexpectedly weak” sales since its launch in the country in April 2014, and worries about running out of juice on longer trips appear to be one reason. China is known for its epic traffic jams, and analysts say “range anxiety” is a challenge for alternative-energy carmakers given

the still-developing network of government-mandated charging stations.

As my driver, cameraman, and I get under way and head northwest toward Nanjing on the Beijing-Shanghai highway, I start to map out the journey into 400km increments. That’s the average range of a fully powered Tesla Model S 85. The trip will eventually take us three days. (A gas-powered car could probably get you there in a day and a half, but remember, we’re out to save the planet here.)

In China, though, math is only part of the equation. Tesla has announced plans to make its vehicle power jacks compatible with state-owned charging

stations when the Chinese government announces a standardized system. The government hasn't said when the standard will be ready.

For now, I have two options: first, Tesla Superchargers, or stations that can power up an electric car in roughly 90 minutes. In U.S. markets like California, these company-owned charging units are common on major highways. Here, I'm relying on Tesla's GPS navigation system and a smartphone app to find them. There are about 70 Supercharger stations available in China and 27 on this route, but none located on the highway we're taking; they're usually in the middle of cities or industrial parks. The second option is a network of more than 1,000 less-powerful "destination charging" stations, branded by Tesla but owned and managed by partner hotels, malls, and banks. Charging time: 12 hours.

The major cities on the journey to the Chinese capital—Nanjing, Xuzhou, Jinan, Cangzhou, and Tianjin—all have Superchargers, but they can be pretty far from highway exits. Traffic jams and side trips through the middle of congested city centers are going to make power management tricky.

The other wild card is Huai'an, hometown of former Premier Zhou Enlai, where I've figured we need to charge up on Day One. The city of 5 million lies between Nanjing and Xuzhou and has only a destination charger—the only one for about 200km. So we have no choice but to spend the night there while the car gets its lengthy plug-in.

On Day One, I start getting stressed barely outside of Shanghai as we encounter torrential rain. My dashboard power gauge shows a driving range of 270km, with 240km to go to my first planned charging stop in Nanjing. That's cutting it close, so I divert to the industrial city of Wuxi, 135km outside of Shanghai, to fuel the car at a Supercharger.

The partial charge takes about an hour. The good news: I have 402km of power. Not so good: We soon hit a massive traffic jam, with Huai'an still 281km away. Since Huai'an is about 200km from the nearest charging stations, I'll be in trouble if I don't make it to the destination charging station there.

At a rest stop on the way to Huai'an, we bump into Li Qiang, a businessman from Chongqing. He drives a gas-powered Jeep Grand Cherokee. He's intrigued by our Tesla and would like to own an electric car some day, but not now, he says. "If charging stations were as ubiquitous as gas stations, I'd be keen to buy an electric vehicle." We get to Huai'an with 49km to spare and settle in at the hotel with the power station.

China's government is determined to reduce the planning and creativity currently needed to take long trips in electric vehicles. Earlier this year, the

State Grid Corporation of China began operating about 50 charging stations along the Beijing-Shanghai highway, and it plans to expand the network to serve 19,000km of highways by 2020. Calvin Lee, a vice president in Seoul for SNE Research, sees the Chinese electric vehicle market taking off in 2018, when prices fall and the charging infrastructure is built out. Tesla is also investing big. "Our plan is to put a Supercharger in any location that enables our customers to take long-distance road trips," says Gary Tao, spokesman for Tesla China.

There's also a community of Tesla owners throughout China keen to bail out fellow owners in case of emergency. Through a smartphone app, they form a "home charging network" by opening their homes or offices to other Tesla owners seeking a charging point. "People that buy Tesla cars would probably have a lot in common and should have a certain level of integrity, so I'm fine with opening up my home," says Chen Lin, a Model S owner in Tianjin who's part of the network.

Day Two: We make it to Xuzhou without a hitch and, after getting yet another full charge, head to Jinan, 320km away. But the vagaries of China's stop-and-go traffic trips us up once more. Our batteries wind down faster than expected, and we decide to make an unplanned side trip for a charge in Tai'an, about 80km before Jinan. We come across a destination charging station, but much of the property where it's located is still under construction, and the three available charging spots haven't been activated. We catch a break

"People that buy Tesla cars ... should have a certain level of integrity, so I'm fine with opening up my home."
—Chen Lin, a home charging network member

when the property manager makes some phone calls and gets permission to power us up. Two hours later, we leave Tai'an, confident we have enough juice to push on to Jinan. There, we find a Supercharger, power up fully, and make it to Cangzhou, 209km away, where we stop for the night.

Day Three: From Cangzhou, we're less than 300km from Beijing. Traffic is always insane in the capital, so we elect to stop in Tianjin (107km away) to fully charge the car before the final leg. Smart move. We make it to the so-called Fifth Ring Road, one of a series of highways surrounding the capital, and I catch a glimpse of Beijing's new CCTV tower. It's another hour before we inch our way to my office.

Tesla insists its Chinese buyers have little to fear, because owners charge their cars at home 95 percent of the time. "We are aware of and expected these perceived inconveniences, and that's why our strategy revolves around education," says Tesla spokesman Tao. But after three days of range anxiety, next time I'll take the train.

—Alexandra Ho

The bottom line Tesla has about 70 high-speed Supercharger stations for its vehicles in China. But none are located directly on highways.

Pharmaceuticals

The Promise and Peril of Crispr

► A cheap gene-editing method could lead to cures—and Frankenbabies

► "The regulators and the politicians are going to be all over this"

Tracy Antonelli and her three daughters suffer from thalassemia, a blood disorder that saps their strength, leaves them anemic, and requires them to visit Boston Children's Hospital every three weeks for transfusions. "We're lucky we have a treatment regimen that's available to us, but it's cumbersome," Antonelli says.

A technology in development at several drug companies offers some hope for a more effective

◀ and convenient treatment for the Antonellis, and patients with other serious genetic conditions, such as sickle cell anemia. The technique is called Crispr, which stands for clustered regularly interspaced short palindromic repeats. Crispr, a method for editing the human genome—the complete set of an individual’s genetic material present in any of her cells—allows scientists to cut out faulty sections of DNA that can lead to serious illnesses and replace them with healthy ones. In the two-part process, first an RNA “guide” molecule locates the part of the DNA that needs to be removed or fixed. Then a Cas9 protein attaches to the DNA and cuts out the mutation. In some cases, scientists can then insert a good strand of DNA. Scientists began using Crispr in human cells about two years ago.

“It’s completely revamped the way we think about genetic disorders and how to fix them,” says Eric Topol, director of the Scripps Translational Science Institute in La Jolla, Calif., a research center focused on precision medicine. Scientists say Crispr is cheap and easy to use compared with other genome editing techniques. It’s used by medical and biological researchers all over the world and has been cited in thousands of scholarly papers. The technology has become a magnet for venture capital, even though medical applications are several years away. Four companies developing Crispr-based therapies have raised more than \$170 million combined.

Many of them, including **Editas Medicine** in Cambridge, Mass., have said they plan to use Crispr to treat diseases in children and adults. Editas scientists are using it in experiments on eye cells to try to eliminate a defective gene linked to Leber congenital amaurosis, a condition that causes blindness in children. The company, founded two years ago with \$43 million from **Polaris Partners**, **Third Rock Ventures**, and **Flagship Ventures**, presented early test results to the American Society of Gene & Cell Therapy in early June. It may begin testing drugs in patients next year.

The expectations raised by Crispr have roused ethical questions about the technique and its potential uses. In March, *MIT Technology Review* reported that **OvaScience**, a biotechnology company that develops fertility treatments, plans to use Crispr to correct gene disorders in human eggs. In April, researchers at Sun Yat-Sen University in Guangzhou, China, said they had used

Crispr to try to repair a flawed gene in human embryos that’s responsible for a form of thalassemia. The researchers attempted the procedure in more than 80 embryos that were never viable. A handful successfully adopted the replacement gene; unexpected mutations occurred in others.

Crispr could encourage editing of all kinds of genomes that, if unsupervised, may present unanticipated risks, says Arthur Caplan, head of medical ethics at New York University School of Medicine. The technique could be used to try to amplify genes thought to boost intelligence in adults. Use on animals and insects could also lead to ecological havoc, Caplan says. “You could have a disaster on your hands, and you don’t have to touch a human to do it,” he says.

Scientists have called for a moratorium on the use of Crispr in human sperm, eggs, and embryos, known as the human germline. The National

Institutes of Health in late April said the agency won’t fund any gene-editing work on human embryos. “We’re not making designer babies,” says Katrine Bosley, Editas’s chief executive officer.

The concerns might discourage further Crispr investment, says Jay Lichter, managing director of **Avalon Ventures**, a fund based in La Jolla. He’s wary of

new regulations and protocols because they could restrict a broader range of experiments, even those by companies such as Editas that pledge not to use Crispr on the human germline. “The regulators and the politicians are going to be all over this if anyone tries to move too fast,” says Dr. Robert Lanza, chief scientific officer of Ocata Therapeutics, a biotechnology company using stem cells to treat eye disease.

Fears of meddling with DNA often arise when new gene technologies are introduced, says George Church, a Harvard geneticist and an Editas founder. The debate over Crispr is important, he says, because the technique is powerful and useful. Church is separately researching how Crispr could

be used to counter the effects of aging.

Topol says the technology’s potential must be investigated. “There are a number of conditions, like hemophilia and HIV, that this might help treat,” he says. “There’s a lot of excitement.” —*John Lauerman and Caroline Chen*

The bottom line Ethical concerns about the use of a gene-editing technique could slow development of promising treatments.

Consumer Goods

Nestlé Tries a Different Recipe for Lean Cuisine

▶ It’s ditching the frozen-food brand’s focus on calorie counts

▶ “This is not going to happen overnight”

About 20 miles southeast of downtown Cleveland sits a 13-story freezer holding millions of Lean Cuisine frozen meals. Lucien Vendôme has the unenviable task of persuading Americans to eat them. Vendôme, **Nestlé’s** French-trained director of culinary innovation, has spent the past 16 months revamping the ailing brand to lure consumers back to the frozen-food aisle. His turnaround recipe: Ditch the focus on fat and calories and replace it with organic, high-protein, and gluten-free meals featuring ingredients such as kale and pomegranate.

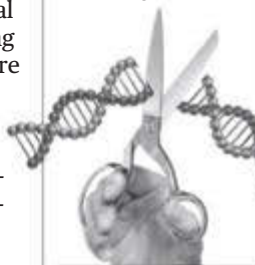
The overhaul is the biggest in Lean Cuisine’s 34-year history. Nestlé has said it must turn around its U.S. frozen-food business—the nation’s largest, with sales of \$5 billion from brands including Stouffer’s, Hot Pockets, and DiGiorno pizza. The company has already sold Juicy Juice and Jenny Craig, brands that also had their heyday in the 1980s. If Vendôme can’t empty that freezer fast enough, Lean Cuisine could be next.

Nestlé’s challenge will be to shift the perception that Lean Cuisine items are heavily processed and unhealthy, which has sent annual sales falling 20 percent in the past two years to \$800 million, says Kepler Cheuvreux analyst Jon Cox. “This is not going to happen overnight,” he says. “Nestlé has the resources to make it work, but I suspect also that, if it can’t be seen to work by the end of this year, it may be disposed.”

Lean Cuisine’s sales woes mirror those at **Weight Watchers**

Cut and Paste: Genome Editing

- 1 A faulty DNA strand is targeted
- 2 Scientists remove it, using an enzyme to cut through DNA
- 3 The defective strand can be replaced with a functioning one



International and other diet brands as weight-conscious consumers shift their attention—and spending—beyond low-calorie items. Lately, they're avoiding frozen food, perceiving it to be less healthy than chilled or fresh.

"Strategically, Nestlé is stuck at a dead end which they can't get out of," says Patrik Lang, head of equity research at Julius Baer Group. Jeff Hamilton, president of Nestlé's U.S. prepared foods division, disagrees. Rather than losing sales because its products are frozen, he says, Lean Cuisine has suffered because it was clinging to old notions of weight loss that have been abandoned. Says Hamilton: "We expect it to take some time to reposition in the minds of consumers."

Nestlé has now divided Lean Cuisine into four product lines: Craveables, snacks like spring rolls; Comfort, including meatloaf and mashed potatoes; Favorites, featuring the brand's classic recipes; and Marketplace, focusing on better-for-you options such as organic cheese-and-bean enchilada verde. Calorie counts are no longer the prime message on the packaging. For example, the front

of the Vermont white cheddar mac & cheese entrée now trumpets that it's made with organic pasta and contains no genetically modified ingredients. The brand's website boasts that 50 of its dishes contain 13 grams of protein, almost a third of a woman's recommended daily intake.

Nestlé takes about two years to develop a product. Vendôme's team reads food magazines and consults with chefs to determine what will transcend the ephemeral tastes of urban foodies and remain popular long enough to reach suburban microwaves. (One past consultant was cronut inventor Dominique Ansel.) Those ideas must translate into a recipe that can be produced on a massive scale and frozen.

A \$50 million innovation center opening July 22 in Solon, Ohio, should let Nestlé try recipes faster. Such research could enable the company to introduce more foods in tune with current trends, says Sean Coary, an assistant professor for food marketing at Saint Joseph's University in Philadelphia. Still, it's uncertain how big a sales boost that

will bring. "We hear that Americans want healthier options, they want organic, they want natural," Coary says. "What they are purchasing and consuming, however, may be totally different."

—Corinne Gretler and Craig Giammona

The bottom line Lean Cuisine sales are estimated to have fallen 20 percent during the past two years, to about \$800 million annually.

Accounting

Wal-Mart Has Found a New Discount: Its Taxes

► The retailer keeps assets in foreign tax havens, saving billions

► "Everybody has been engaging in cross-border tax avoidance"

Wal-Mart Stores is famous for wringing costs out of its operations to maximize profits. It's quietly doing the same with its taxes. A new study says Walmart holds more than \$76 billion of its assets through a web of at least 78 offshore subsidiaries and branches in tax havens around the world. The overseas operations have helped the company cut more than \$3.5 billion off its income tax bills in the past six years, its annual reports show.

The study, researched by the United Food & Commercial Workers International Union and published in June in a report by the advocacy group Americans for Tax Fairness, found that 90 percent of Wal-Mart's overseas assets are owned by subsidiaries in Luxembourg and the Netherlands, popular corporate tax havens. Units in Luxembourg—where the company has no stores—reported \$1.3 billion in profits from 2010 to 2013 and paid tax at a rate of less than 1 percent, the report says.

All of Wal-Mart's 3,500 stores in Brazil, Central America, Chile, China, Japan, South Africa, and the U.K. appear to be owned through units in tax havens such as the British Virgin Islands, Curaçao, and Luxembourg, says the report. The UFCW conducted its research using publicly available documents filed in various countries by Wal-Mart and its subsidiaries. The union backs the Organization United for Respect at Walmart, which campaigns for wage hikes and more predictable work schedules.

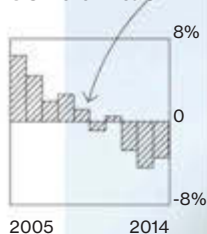
Wal-Mart spokesman Randy

Lost Appetite

\$9.2b

Total industry sales in 2009, the highest in 15 years

Change in sales, U.S. frozen meals



Lean Cuisine now touts more than just low calories

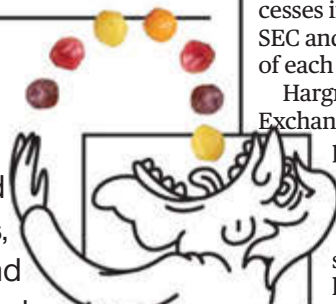


Briefs

Cleaning House

By Jennifer Chaussee

● ● **Martha Stewart Living Omnimedia** agreed to a \$300 million buyout from Sequential Brands, which owns Jessica Simpson's retail line and Heelys, a maker of shoes with pop-out wheels in the heels. The deal values the company, once a home-goods and media powerhouse, at a fraction of its \$1.4 billion market value a decade ago. Founder Martha Stewart will continue as chief creative officer of the brand. ● ● **Amazon.com, Wal-Mart, eBay,** and **Sears** pulled Confederate flags from their online stores following a shooting in Charleston, S.C., that left nine black churchgoers dead. The shooter was linked to a white supremacist group that embraced the flag. "We believe it has become a contemporary symbol of divisiveness and racism," said Johnna Hoff, eBay communications director. ● ● **Ford Motor**, the No. 2 U.S. automaker, announced a car-sharing service for customers who want to rent out their Ford vehicles when they're



General Mills will replace artificial colors and flavors in its cereals with natural alternatives by 2017. Replacing blue and green is tough, so the new Trix cereal will feature four flavors instead of six.

not using them. A pilot program connecting Ford owners with prescreened renters, already under way in London, will soon start in six U.S. cities and go through November.

The average minimum hourly wage **Ikea** workers in the U.S. will earn after a 10 percent raise takes effect in 2016. The company said the move will help it retain more of its workforce.

\$11.87

● ● **Sports tycoon Stephen Ross** is in talks to buy a 35.5 percent share of **Formula One** racing from CVC Capital Partners. A Qatari sports investment fund is joining with Ross on the roughly \$8 billion deal, which could usher in a new era of pro racing in the U.S. ● ● **Carl Icahn** sold his shares of **Netflix** after the video service announced a 7-for-1 stock split. The stock doubled this year, leading the Standard & Poor's 500-stock index. "Believe \$AAPL currently represents same opportunity we stated NFLX offered several years ago," Icahn tweeted.

◀ Hargrove called the report incomplete and "designed to mislead" by its union authors. He said the retailer has "processes in place to comply with applicable SEC and IRS rules, as well as the tax laws of each country where we operate."

Hargrove cited Securities and Exchange Commission guidance that permits companies to avoid disclosure of subsidiaries with significant "intercompany transactions." He said Wal-Mart's tax savings overseas were driven by lower rates in markets including Canada and the U.K.

Companies such as **Google, Apple, and Starbucks** have drawn flak for avoiding billions of dollars in taxes by attributing profits to subsidiaries in low-tax jurisdictions like Bermuda. "This report is continuing evidence that everybody has been engaging in cross-border tax avoidance," says Stephen Shay, a Harvard Law School professor and former deputy assistant secretary for international tax affairs at the Department of the Treasury.

Since 2009, Wal-Mart has created 20 subsidiaries in Luxembourg, where it uses hybrid loans made to its own businesses, a popular legal strategy, the report says. The tactic lets companies' offshore units take tax deductions for interest paid—typically on paper only—to their U.S. parents. The parent doesn't include that interest as taxable income in the U.S. The Organisation for Economic Co-operation and Development has called for an end to the tax benefits of such loans.

U.S. companies owe tax at a rate of 35 percent but can indefinitely defer the income taxes on profits attributed to overseas units. Wal-Mart, which operates about 6,300 stores outside the U.S., last fiscal year reported 28 percent of its sales abroad, or about \$137 billion. Its accumulated offshore earnings more than doubled in 2015, to \$23.3 billion, from \$10.7 billion in 2008. Still, the retailer hasn't escaped the IRS's reach. It paid \$6.2 billion in U.S. income tax last year, Hargrove said, or "nearly 2 percent of all corporate income tax collected by the U.S. Treasury."

—*Jesse Drucker and Renee Dudley*

The bottom line A new study says Walmart holds \$76 billion in assets in 78 offshore subsidiaries to help lower its U.S. tax bill.

In Memoriam

"We were that transitional generation that thought by distancing ourselves from ... our roots, we were going to somehow magically be accepted by the general community."

Daniel Villanueva, co-founder of Hispanic broadcaster Univision. He died on June 18.





With Central Bank stimulus, wise to put your focus on Europe?

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Action: Consider hedged exposure to German stocks as an entryway to potential European momentum.

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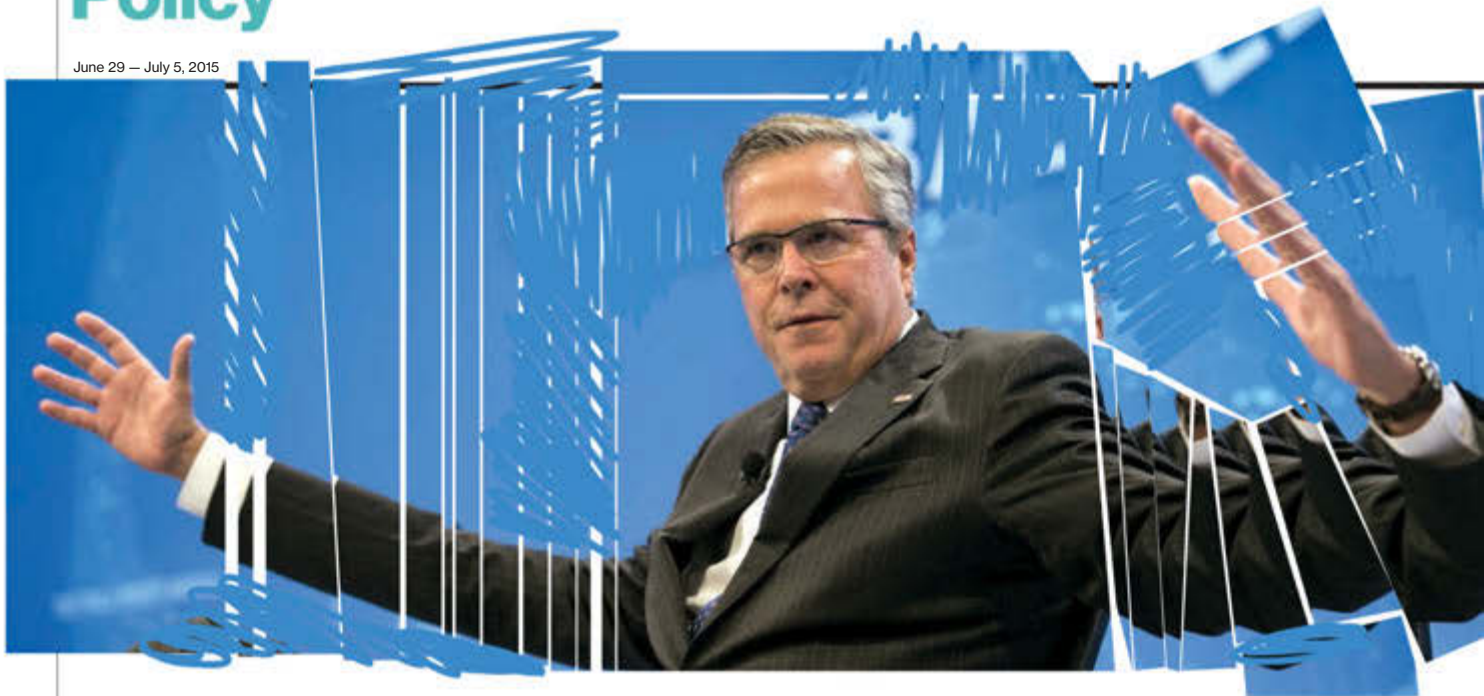
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1. European Central Bank, as of 1/22/15. Bond-buying program expected to exceed \$1.1T. 2. Bloomberg, as of 3/20/15; as measured in size and contribution to eurozone GDP. 3. Based on \$4.774T in AUM as of 3/31/15. Visit www.iShares.com or www.BlackRock.com to view a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. Risk includes principal loss. International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. ■ These risks often are heightened for investments in concentrations of single countries. ■ The Fund's use of derivatives may reduce returns and/or increase volatility and subject the Fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. The Fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements. Such losses are potentially unlimited. There can be no assurance that the Fund's hedging transactions will be effective. ■ This material represents an assessment of the market environment as of 5/13/15 and is not intended to be a forecast of future events or a guarantee of future results. ■ This information should not be relied upon by the reader as research or investment advice regarding the funds or any issuer or security in particular. Funds distributed by BlackRock Investments, LLC (BRIL). The iShares Funds are not sponsored, endorsed, issued, sold or promoted by MSCI Inc., nor does this company make any representation regarding the advisability of investing in the Funds. BRIL is not affiliated with MSCI Inc. ©2015 BlackRock, Inc. All rights reserved. iSHARES and BLACKROCK are registered trademarks of BlackRock, Inc., or its subsidiaries. IS-15213-0515

June 29 — July 5, 2015



28

Jeb Must Keep His Right-Hand Man at Arm's Length

► Bush has never won an election without Mike Murphy's help, and now they aren't allowed to talk

► "He's a good friend, and I'm going to miss him. I hope to see him on election night"

The singular failure of Jeb Bush's political career was his 1994 loss in the Florida governor's race by less than two percentage points. The defeat cast Bush, a rising Republican star, into the political wilderness just as his older brother, George, won an upset victory over Ann Richards in Texas, putting him on the path to the presidency. When Jeb ran again in 1998, he brought in Mike Murphy, an ad man credited with helping John Engler and Christine Todd Whitman win governorships in Michigan and New Jersey. Bush won by more than 10 points. He had Murphy at his side as he cruised to reelection in 2002. Now he's trying to win the presidency without his favorite strategist whispering in his ear.

Murphy is in charge of Right to Rise, a super PAC created to get Bush elected. Because of regulations requiring a separation between candidates and super PACs, they can't formally coordinate their efforts between now and the

election. All the major candidates in the 2016 race will have super PACs working on their behalf, but Bush and Murphy are trying something unprecedented in U.S. presidential elections: building a separate, and better-funded, organization that will in some ways eclipse the official campaign as a vehicle for promoting the candidate. Murphy's Los Angeles-based team will produce digital marketing, television ads, and opposition research on behalf of Bush, whose campaign headquarters are across the country in Miami. "He's a good friend, and I'm going to miss him," Bush says. "I hope to see him on election night and give him an embrace. But from here on out, I won't be talking to him."

Unlike the campaign, the super PAC can accept unlimited contributions. Bush spent the months before announcing his candidacy on June 15 taking in tens of millions of dollars for the group, which will report how much it's raised

in mid-July. He has been the featured guest at least 39 times for Right to Rise fundraisers, according to invitations compiled by the Sunlight Foundation. The list includes events where the suggested donation was \$100,000 a person in Chicago, Miami, and New York. Going forward, he'll be allowed to appear at the group's events as a guest, but he can't discuss strategy or coordinate with Murphy directly.

For Murphy, who declined to be interviewed, the setup offers some clear benefits. For one thing, he'll be the autonomous ruler of the super PAC staff, free of the office politics of the campaign. He plans to use his own Virginia-based consulting company, **Revolution Agency**, to produce TV ads and a digital marketing effort to reach voters via social media and text messaging. In a June 17 conference call with donors, Murphy said he was no longer coordinating with the campaign but was "well

Drought or the free market: Which do farmers fear most? 30

When insurers want you to get really sick 32

Don't mess with Texas' gold 33

informed as of a week ago" about Bush's strategy. He said Right to Rise would focus on fundraising this year, holding on to most of its cash until primaries begin in early 2016—though Murphy said Right to Rise would "do a few frugal, highly targeted things to help boost the governor's narrative" this summer, as the candidate travels around the country meeting voters.

The call, which was reported by BuzzFeed, illustrates the limits of the no-coordination rules. In the mid-terms, candidates and super PACs devised numerous tactics for telegraphing their strategies. One was tipping off mainstream news organizations to ad buys or strategic shifts. American Crossroads, a major Republican super PAC, and other groups used Twitter to share polling data with party committees, posting tweets filled with cryptic strings of data—in one case from an account named for a *West Wing* character. Aides to the Democratic Senatorial Campaign Committee tweeted a link to ad scripts devised by New Hampshire Senator Jeanne Shaheen's campaign that were used by Senate Majority PAC, the largest outside Democratic group. "If Bush's chief strategist is doing conference calls to lay out exactly what the plan is and how that's part of the campaign, then there is no independence," says Bill Burton, a co-founder of Priorities USA, a Democratic super PAC created in 2012 to support President Obama's reelection that's now working

for Hillary Clinton. (Burton is no longer involved.) "That's not to suggest Mike Murphy and the Bush campaign or anyone is breaking the laws. It's just that the law is really stupid."

Bush says his campaign and Right to Rise are on parallel tracks. "I don't think we're exporting any responsibilities," he says. The campaign already has staff on the ground in Iowa, Nevada, New Hampshire, and South Carolina. Right to Rise staffers have been trailing Bush and his events for months, stockpiling footage for ads. "The super PAC? We'll see what they do," Bush says. "I hope it enhances the message that I hope to bring."

Bush's top adviser on the campaign is Sally Bradshaw, who has been working with him since his father's presidential campaign in 1992. Murphy, who also worked on the 1992 campaign, is a foil for Bush, who sometimes struggles to tell a joke but has a keen appreciation for the role humor can play in buoying or tanking a campaign. In the 1998 governor's race, when Bush faced off against a Democrat named Buddy MacKay, Murphy came up with a simple tag line: "He's not *your* buddy." The line, or a version of it, was used in every possible ad. "That's a great example of Mike's creativity," says Cory Tilley, a Tallahassee political operative who handled communications for Bush in his Florida races. "That took the edge off some so it didn't look like a down-in-the-gutter attack." One TV spot accused MacKay and Florida Democrats of being soft on crime because they'd relaxed

sentencing laws to address prison overcrowding. "Thanks, Buddy," said a burglar in the commercial.

Along with Bradshaw, Murphy has been able to tell Bush when he's strayed off course—or help him regain focus after campaign setbacks. "Murphy is one of the few people that Jeb can hear that from and believe it," says Brian Crowley, a Florida political analyst.

—Michael C. Bender, with Phil Mattingly

The bottom line Jeb Bush is reinventing presidential campaigns for the super PAC era by putting his closest adviser in charge.

Gay Rights

The Next Push For LGBT Equality

► Congressional Democrats go for a blanket ban on biased treatment

► "I'm certainly very much in favor of not discriminating against anybody"

For 20 years, LGBT advocates have tried, unsuccessfully, to block companies in the U.S. from firing workers for being gay. The federal Employment Non-Discrimination Act (ENDA) was introduced in 1994 by Massachusetts Democrats Ted Kennedy in the Senate and Gerry Studds in the House. It was reintroduced in almost every congressional session and finally made it through the House in 2007, but wasn't debated ►

Campaign 2016 Spectacles

Four Republican candidates seize the moment

	Rick Perry	Jeb Bush	Donald Trump	Bobby Jindal
When	June 4	June 15	June 16	June 23
Where	Addison Airport, Addison, Texas	Miami-Dade College, Miami	Trump Tower, New York	Pontchartrain Center, Kenner, La.
Entourage	Retired U.S. Navy SEALs Marcus and Morgan Luttrell	Barbara Bush	Tourists	Supriya Jindal
First line	"I was born five years after the end of a global war that killed more than 60 million people."	"Mom, can you ask them to sit down, please."	"Wow. Whoa. That is some group of people. Thousands."	"My name is Bobby Jindal."
Last line	"Thank you, and God bless you."	"Thank you, and God bless you all. I love you."	"We will make America great again."	"May God bless the United States of America."
Length	28 minutes	28 minutes	45 minutes	24 minutes

Number of times Perry said his own name

0

Bush's hyphenated adjectives:

"no-suspense primary"
"no-change election"
"small-time thinking"
"self-interested politics"
"phone-it-in foreign policy"

Number of times Trump said his own name

11

At 12:29 p.m., Jindal tweeted, "I'm running for President of the United States of America"

◀ in the Senate that year because of disagreement among Democrats over whether to include transgender as well as gay employees. In 2013 a version passed the Senate, which was Democratic-controlled, only to die in the Republican-controlled House.

Now liberal lawmakers are setting the workplace-focused legislation aside in favor of a more ambitious approach. In July, congressional Democrats plan to put forward legislation that would outlaw LGBT discrimination not only in employment but also in education, credit, federal programs, housing, and jury service, as well as at restaurants and hotels. “We have, over time, taken a strategy of saying, ‘Let’s chip away at discrimination,’” says Senator Jeff Merkley, an Oregon Democrat who’s sponsored past ENDA bills and will introduce the comprehensive legislation. “I think the time has come, and the American public has moved far enough that we have a strong prospect.”

LGBT advocates and supporters such as Merkley got a big boost from the business community earlier this year when **Wal-Mart Stores** and **Apple** joined other large companies in pressuring the Republican governors of Indiana and Arkansas to backtrack on religious freedom bills that would have shielded businesses that discriminated against LGBT customers. They are also hoping the national shift in favor of same-sex marriage will help soften opposition to expanding discrimination protection. According to a May Gallup poll, 60 percent of Americans support same-sex marriage, compared with 37 percent in 2005. The U.S. Supreme Court is expected to rule by June 30 on whether same-sex couples have a constitutional right to marry.

Historically, LGBT advocates have been split on how much to compromise in order to get federal legislation passed. In 2007, unable to secure majority support even in a Democratic-controlled Congress for a version of ENDA that included transgender employees, then-Representative Barney Frank, the Massachusetts Democrat, reintroduced a draft that dealt only with antigay discrimination. Many LGBT groups opposed the bill. The largest, the Human Rights Campaign, drew heat from allies for supporting it. “You sometimes get a little bit of a disconnect between those who want to achieve something and get something passed and those who ▶

Agriculture Farmers Place Their Bets

In 2014, Congress eliminated \$4.5 billion in annual crop subsidies. Farmers had to choose between a program that guarantees revenue in bad harvests and another that pays when prices fall. On June 15, the U.S. Department of Agriculture reported how many farmers sought protection from market forces, and how many from acts of God, including floods and drought. —*Alan Bjerga*



June 20

There's been more rain this year:

April 6 to June 15, 2015
15.27 inches

April 7 to June 16, 2014
11.36 inches

The Decision

Like 91 percent of corn farmers, Bidner signed up for the program that insures him against poor harvests. He expects corn and soybean prices to rise as demand for U.S. crops goes up, but he's worried about extreme weather cutting his yields.



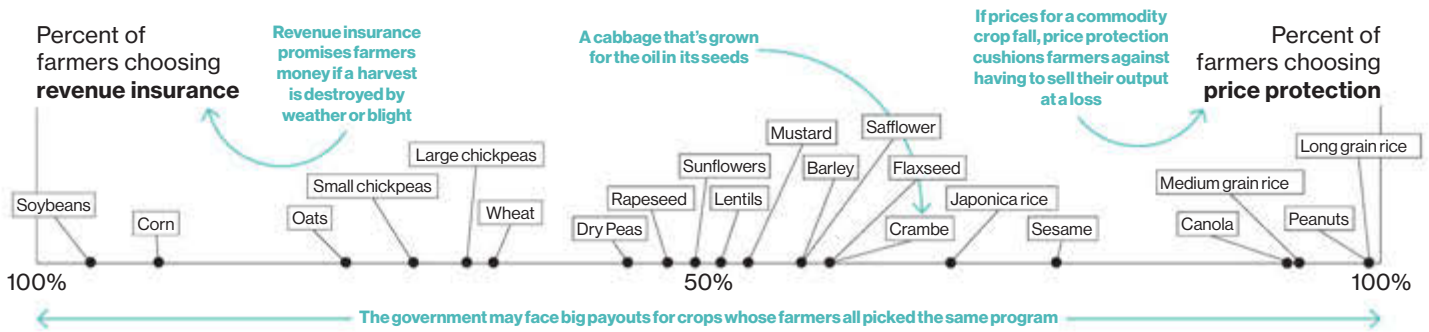
March 13

"Rain makes grain, and that's true. But this is getting excessive."
 —J. Gordon Bidner
 Bidner has been growing corn in McLean County, Ill., since the 1970s



1,760,345 farmers signed up for the new subsidies

DATA: U.S. DEPARTMENT OF AGRICULTURE



“want to hold out for the ideal,” says David Stacy, who directs government affairs for the group.

The path for antidiscrimination legislation is even narrower now that Republicans control both the House and the Senate. LGBT groups and their Democratic allies say replacing ENDA with a broader bill offers a better vehicle for raising public aware-

“We have, over time, taken a strategy of saying, ‘Let’s chip away at discrimination.’”

—Oregon Democratic Senator Jeff Merkley

ness about the scope of discrimination experienced by gays, lesbians, and transgender people. It also creates a vehicle for putting pressure on Republicans ahead of an election year. “They are going to squirm,” says California

Representative Xavier Becerra, the House Democratic Caucus chairman. “They are in a soup that they cooked, and the flame is getting higher.”

Conservatives who support anti-discrimination legislation say Democrats are politicizing the issue at the expense of getting anything passed. “Democrats are obsessed with exclusively owning this issue and deliberately excluding Republicans,” says Gregory Angelo, executive director of the gay conservative group Log Cabin Republicans. Any broader anti-discrimination bill needs the buy-in of Republicans, he says, “before it is introduced, not after.”

Republicans in Congress who have opposed anti-discrimination bills in the past say they just want to make sure any legislation adequately balances civil rights against other concerns. “I’m certainly very much in favor of not discriminating against anybody,” says Arkansas Republican Senator John Boozman. “My problem is that you don’t want to give special rights, OK, and make it such that somebody that’s gay can’t be fired

even if they’re not doing their job.”

If Republicans do offer a compromise, Democrats pushing the comprehensive approach will face pressure to abandon it. “Any insistence that this bill has to be passed as a giant bill and can’t be dealt with in pieces would be suicidal,” says Frank. Still, Rhode Island Democratic Representative David Cicilline, who will spearhead the anti-discrimination bill in the House, says he’s not planning to back down. “We should be demanding and fighting for full equality,” he says. —Josh Eidelson

The bottom line LGBT supporters are pushing for broader antidiscrimination laws despite an uncertain path through Congress.

Health Care

Giving Doctors a Reason To Look for Problems

▶ Government efforts to cut medical costs haven’t worked as planned

▶ “Coding for payment is very much on the minds” of insurers

Two years ago, Anita Silingo filed a sealed whistle-blower lawsuit claiming that her former employer, a health-care company called **MedXM**, exaggerated or fabricated reports about patient illnesses to claim higher reimbursements from Medicare. According to Silingo, MedXM and its insurance company clients, including **Anthem**, **Health Net**, and **Molina Healthcare**, “all turned a blind eye to the truth” in exchange for getting more money out of the government.

Silingo is one of a handful of whistle-blowers who have come forward with similar claims in recent years. Her suit was unsealed last fall after the U.S. Department of Justice declined to pursue the case on her behalf. A new analysis suggests that the practice of reporting that patients are sicker than they really are is costing taxpayers billions of dollars a year. MedXM and the insurers named in the complaint have sought to dismiss it and denied the allegations. They declined to comment.

Until about 15 years ago, the government paid physicians for the number of procedures they performed. In an attempt to reduce costs—and remove incentives for doctors to perform

unnecessary procedures—the government created Medicare Advantage programs, where insurance companies are paid a fixed sum to care for a set number of patients. To keep insurers from cherry-picking the healthiest people, Medicare pays more to care for sick enrollees. The extra payment is based on diagnostic codes physicians submit for reimbursement. But the system gives insurers incentives to do exactly what Silingo alleges they did. “There’s no doubt that coding for payment is very much on the minds and influencing the actions of all of these actors,” says Michael Geruso, a University of Texas at Austin economist who co-authored a working paper on Medicare reimbursements for the National Bureau of Economic Research.

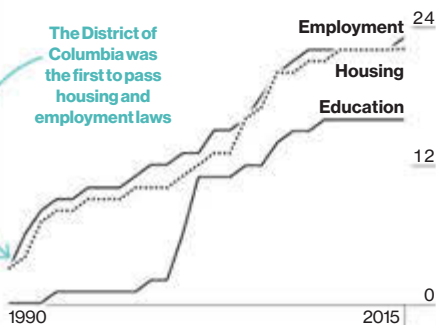
Geruso estimates that inflated diagnoses cost taxpayers about \$2 billion in 2014, or \$120 for each of the 16 million enrollees in privately managed Medicare Advantage plans. Watchdogs have warned about inflated risk scores for years. A 2012 review by the Office of the Inspector General for the U.S. Department of Health and Human Services, which oversees Medicare, called the risk-based payments a “significant vulnerability” for Medicare.

Some of the increase may be legitimate. A guide to the Medicare Advantage coding system on Anthem’s website includes a hypothetical example of how the payment model changes incentives for recording symptoms experienced by an 85-year-old diabetic with a urinary tract infection. Under Medicare’s traditional payment system, where doctors are paid for the services provided, they might not bother listing diagnoses that could qualify the patient for a higher reimbursement rate under the new system. With the additional illnesses factored in, Anthem gets paid \$2,475 instead of \$481. Insurers say that’s how the Medicare Advantage system is meant to work. “Medicare Advantage plans have a better track record when it comes to payment accuracy,” says Clare Krusing, spokeswoman for the trade group America’s Health Insurance Plans.

Insurers can hire companies such as MedXM to maximize their payouts. MedXM visits Medicare patients in their homes to do health assessments and record medical conditions that might be overlooked by doctors. Insurers also use software to scan medical records and identify additional diagnoses that may

Number of States With Antidiscrimination Laws

The District of Columbia was the first to pass housing and employment laws



50.3%

June 2015 projections for the percentage of American children under the age of 5 who are **nonwhite or Hispanic**—the first age group where minorities are the majority.

SOURCE: U.S. CENSUS BUREAU

have been overlooked, says Timothy Layton, a Harvard Medical School economist and Geruso's co-author.

Although it won't pursue Silingo's case, there are signs the Justice Department is starting to take the issue seriously. In regulatory filings this year, insurer **Humana**—which wasn't one of those named by Silingo—disclosed that it received an "information request" from Justice about its Medicare reimbursements. Humana didn't respond to requests for comment. In its quarterly report filed on April 29, the company suggested it's not the only one under scrutiny: "We believe that this request for information is in connection with a wider review of Medicare Risk Adjustment generally that includes a number of Medicare Advantage plans, providers, and vendors." —*John Tozzi*

The bottom line Economists say that inflated Medicare diagnoses may be costing taxpayers \$2 billion a year.

to work out what to do with the metal once it arrives in Austin.

The bill Abbott signed established the Texas Bullion Depository, which the governor said would increase "the security and stability of our gold reserves." No other state has its own

\$650_m

Value of gold bullion owned by the University of Texas Management Co.

gold vault, and Texas may be the only one with its own gold reserve, says Philip Diehl, a former director of the U.S. Mint who's president of U.S. Money Reserve, a precious metals distributor based in Austin.

The task of protecting the Lone Star gold will fall to the state's comptroller of public accounts, Glenn Hegar. One option may be to put the gold behind a bulletproof door in the basement of a Travis County office building where a long-gone bank once kept safe-deposit boxes. "When you're talking about gold, people's eyes light up," says Chris Bryan, a spokesman for the comptroller. "But when you're talking about what you need to do to house that gold, from a logistics standpoint it's very complicated and [something] we don't have a whole lot of experience with."

The gold belongs to the **University of Texas Investment Management Co.**, which oversees one of the largest academic endowments in the country. In 2008 the fund began buying gold as a hedge against what its chief executive officer, Bruce Zimmerman, describes as "excess monetization by central banks." Buying and storing the gold, he says, was cheaper than buying futures.

The movement to get the bullion out of Manhattan was spearheaded

by Giovanni Capriglione, a Republican elected to the Texas House of Representatives in 2012 from suburban Fort Worth. "We want to show off our strength and resilience," Capriglione says. "This is to be able to say, 'Hey, listen, Texas is unique. It's stable, it's strong.' And we can show that by letting other states and individuals know that, yes, Texas has a billion dollars' worth of gold. Does your state have a billion dollars' worth of gold?"

The law sets up a framework for a system under which Texans could deposit gold and use it to execute financial transactions, including buying a house or paying taxes. But Capriglione says it "isn't some backdoor way to create a Texas dollar or Texas currency." Rather, he says, it's a way to reassure Texans about their financial security. "Whenever you look at these economic collapses, it's always based on consumer confidence," he says. "It does make people feel more secure to have the gold here. It just does."

There was little opposition to repatriation before the legislature voted in May. "We're not changing our currency, right?" Democratic Senator Juan "Chuy" Hinojosa asked. Assured the greenback would still be legal tender, he voted yes. Kirk Watson was one of four Democrats in the Senate to go the other way. Why? "Cause it's weird," he says. The Senate voted 27 to 4 and the House 140 to 4.

Retrieving the stash "makes a lot of sense," according to former Mint chief Diehl. "There's absolutely no reason to believe the state of Texas cannot protect gold as effectively as any of the other large commercial vaults around the country," he says. "After all, we have the Texas Rangers."

—*Lauren Etter*

The bottom line Having decided to reclaim its gold reserves, Texas must figure out how to protect them.



States' Rights

The Alamo Called, and It Wants Its Gold Back

- ▶ Texas makes plans for retrieving bullion stored in New York
- ▶ "From a logistics standpoint, it's very complicated"

Texas has been paying just shy of \$1 million annually to store about 5,600 gold bars in a Midtown Manhattan vault. On June 12, Republican Governor Greg Abbott signed a law to "repatriate" the gold, which is worth about \$650 million. Now the state has

Brilliant IDEAS



SIMON DENNY



CORNELIA PARKER



MICHAEL JOO



MARIKO MORI



Cyclic II, 2014

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June 29 — July 5, 2015

Yo Tim!

**What's up with this deal
you're on??? I need
some stock tipz! ;)**

**LOL. whoever's
reading this we're JK**

**U always crack
me up Janet!**

► Office chat service Slack is adding record-keeping features to push its way into finance

► In chat windows, workers “are a lot less formal and more colloquial”

In the next major financial scandal, when e-mail and other digital communications among co-workers again turn into courtroom evidence, they will likely include **Slack** chats. That means federal prosecutors will almost certainly review scattered arguments about the relative merits of bagels and burritos and links to the occasional clickbait quiz. (“Do you belong in NY or SF?”) Try to imagine stern attorneys puzzling over transcripts that descend into a stream of sarcastic animations, or a judge ruling on the legal meaning of a chat room meme.

Slack, which in its less than two years has become a leading office chat software, is trying to prepare for this kind

of scrutiny. The service offers casual chat rooms organized by topic. It's compatible with cloud services such as Dropbox and Google Drive, and comes with a built-in GIF generator. Accounts with up to 10,000 messages are free; an unlimited account costs about \$7 a month per user, or \$12.50 for a version with 24/7 customer service. Slack has 300,000 paid subscribers among its 1.1 million daily users, yielding \$25 million in annual recurring revenue. In April the company raised \$160 million at a \$2.8 billion valuation, bringing its total fundraising to \$340 million.

It's sinking some of that money into features that will ensure all its chats are recorded for posterity in a

clean, searchable format, and that employers can monitor chats in real time. Those features are needed to attract financial-services companies that haven't been able to use Slack for fear of violating a Reagan-era rule on maintaining records of business correspondence. “There were a number of companies in our pipeline that said, ‘We won't be able to use you unless you meet this compliance obligation,’” says Anne Toth, an executive who joined Slack in October to head policy and compliance strategy.

The \$12.50-a-month version already lets users save all their chats in one file, but that format isn't easily searchable—and can't be easily accessed by bosses. ►

◀ To make the data more usable, Slack is working with digital-archival companies to incorporate more active surveillance features, such as keyword alerts, that managers and compliance staff can monitor. This deluxe business version will cost \$40 to \$48 a month per user. (Bloomberg LP, the parent of *Bloomberg Businessweek*, also provides digital communications and archiving tools to financial institutions.)

Among the companies using Slack for compliance is **Robinhood**, a Palo Alto startup that makes a stock-trading app. Because Robinhood is a registered broker-dealer, all digital communications among its two dozen employees, including their office humor, must be recorded, archived, and available for parsing by the Financial Industry Regulatory Authority or the U.S. Securities and Exchange Commission. Chief Operating Officer Nathan Rodland says he'll step into chats occasionally to redirect a conversation or tell people to get back to work, and acknowledges that he worries about just how casual Slack can get. "We probably have too much fun on Slack," says Robinhood spokesman Jack Randall. "It's definitely the main way to communicate here."

Fun is something of a risk, says Lindsay Simon, founder of consulting firm Simon Compliance. "You are trained and ingrained in the financial-services industry: 'Don't write anything in an e-mail that you don't want to be on the cover of the *Wall Street Journal*,'" she says, but employees in chat rooms "are a lot less formal and more colloquial."

Chat rooms have exposed some especially embarrassing behaviors at financial-services companies, perhaps most notably during the Libor

"We probably have too much fun on Slack. It's definitely the main way to communicate here."

—Jack Randall, Robinhood

scandal, in which traders rigged rates while joking over chat about being dirty "like a whore's drawers."

E-mail, of course, has posed its own problems, from the Enron scandal to the aftermath of the 2008 financial

meltdown. Goldman Sachs officially banned the use of profane language in office communications after a 2010 Senate hearing made famous an executive's e-mailed boast that he was hoodwinking clients with what he knew to be a "shitty deal."

Federal regulations require financial companies to scan digital communications for red flags, typically using the kinds of filters Slack is developing for its pricier edition. These features may help Slack catch up to rival chat program Symphony, which has made headway in heavily regulated industries such as finance and health care. Filter-equipped Symphony, which launched in beta in April, has already drawn about 50,000 active users, says **Symphony Communication Services** Chief Executive Officer David Gurle. None, however, pay.

People eventually grow numb to warnings that they're being watched, says Simon, the consultant. Many office workers sign away their rights to e-mail privacy at work and continue to have inappropriate discussions over company servers, so even with all of Slack's notifications that conversations are being recorded, the company's chat transcripts could easily end up in court. Younger workers reared on social media will come to think of joking around with co-workers through GIFs as part of life in a hip workplace, along with flex time and happy hours. For Slack to keep selling to employers, it'll have to stay fun—by the standards of an office chat

service—without loosening up workers so much that they get in trouble. "We want to use these cool, new, hip, trendy startups, their services and products," says Randall, Robinhood's spokesman. But too often, "they can't support our regulatory requirements."

—Rebecca Greenfield

The bottom line Slack is using some of its latest \$160 million in venture capital to develop compliance tools that appeal to finance shops.

Startups

Die Gründertrainerin Will See You Now

- ▶ In Berlin's entrepreneurial culture, consulting overlaps with therapy
- ▶ "It helps, having someone rationalize and take the emotion out"

Julia Derndinger is Berlin's startup therapist. Each week, she sees a dozen company founders at her apartment on Oranienburger Street, where €200 (\$224) an hour buys advice on spending, expansion, and hiring, plus hot tea and, occasionally, relationship counseling. Derndinger also helps clients navigate the extra layers of danger and anxiety that come with running a fledgling business in Germany. The local financial press has dubbed her *die Gründertrainerin*, "the founder trainer."

As many as 1,000 startups have begun life in Berlin in the past year, and the local tech industry employs about 60,000 laptop jockeys in conventional offices or huddled at cafes and co-working spaces with Fritz-Kola and craft beer. But the "fail fast, fail often" ethos of Silicon Valley is at odds with the notoriously cautious German business culture. Germany ranks 25th out of 29 high-income countries in new-business formation, according to the World Bank. Among other factors, shuttering the local equivalent of a limited liability company takes a year or more and lands directors on a banking blacklist.

Discretion is paramount for Derndinger, a startup veteran who began taking on clients two years ago after encountering a wave of founders in need of hand-holding. She says most are in their early 30s, manage at least 50 employees and €10 million in annual revenue, and take more than a

2.79m

Estimated number of Apple Watches sold since the April 24 debut, according to a June 18 report from researcher Slice Intelligence. Apple hasn't released sales data.

Digits



year to publicly admit they meet with her. “We don’t talk about problems in Germany,” Derndinger says. “It’s just not sexy to be coached.”

Sessions are typically in the morning, before her clients head to work. Tea and flowers set the mood, and there’s a fluffy white sofa, but Derndinger prefers to sit at her massive walnut dining table. Her style lands somewhere between sympathetic ear and drill sergeant. During a March session a reporter sat in on, the words *ein Problem* popped up throughout, and Derndinger peppered her questions with *Scheiße*, *Arsloch*, *verdammmt*, and other profanities while her client repeatedly massaged his face. The matter was less dire than all that: She was urging her client to save on lodging for the annual South by Southwest Conference in Austin, Texas, by crashing with local Germans.

“Julia gives me one hour per week where I can actually drop my issues,” says Christoph Behn, founder of online stationery shop die Kartenmacherei,

who began visiting Derndinger last year. “It helps, having someone rationalize and take the emotion out,” Derndinger says she recently stopped booking clients back-to-back because many were lingering to discuss personal problems.

Derndinger, 39, worked in customer retention, including for Bertelsmann’s e-commerce arm, before co-founding mobile accessories maker Trendwerk77 in 2004. After selling that company to her business partner for “less than seven figures” at the end of 2007, she helped launch Circus Internet, an online toy-rental company. In 2013 she cashed out of Circus, where she was managing director, for a sum she wouldn’t disclose. She says brashness helped her stand out as a manager and sell her companies.

Christian Lindner, chairman of Germany’s Free Democratic Party, was speaking before state legislators earlier this year, asking them to treat failed business owners with more sympathy, when a heckler mocked the 2001 collapse of Lindner’s former tech company,

Moomax. His angry, three-minute response racked up more than 2 million views online. “What sort of impression does this kind of interjection make on some young person interested in starting a business?” Lindner said. “If one succeeds, one ends up in the sights of the Social Democratic redistribution machinery, and if one fails, one can be sure of derision and mockery.”

All of Derndinger’s clients, and a disproportionate number of Berlin startup founders, have backgrounds in business rather than programming, yet many are convinced they need to build their own software for everything instead of using ready-made tools such as WordPress and Excel. Derndinger tells them that’s dumb. “It’s not magic,” says Felix Schlegel, the co-founder and managing director of online retailer Monoqi, who’s been meeting with the therapist every Friday morning since late last year. Like most of her advice, he says, “it’s just common sense.”

—David Gauvey Herbert

The bottom line The bustling startup scene in Berlin has created a €200-an-hour business for a veteran who’s a good listener.

Hardware

China Has Big Plans for Homegrown Chips

▶ The state’s \$161 billion investment scares foreign industry leaders

▶ “You’re going to have to do joint ventures and licenses”

China buys more than half the semi-conductors sold each year, and its share is growing. Yet the nation doesn’t have one domestic manufacturer among the 10 biggest chipmakers, a list stacked with U.S. companies. Homegrown chips account for less than one-tenth of local demand, and in 2013 China spent more money importing chips than it did importing oil, according to researcher Sanford C. Bernstein.

As President Xi Jinping’s government trades allegations of cyber espionage with U.S. officials, China is stepping up its support of domestic chip production to lessen its dependence on foreign technology. The government is telling local companies and Chinese news media that it plans to invest as much ▶

◀ as 1 trillion yuan (\$161 billion) over 10 years to develop chips, about as much as **Intel** spends per decade on facilities and research and development.

With so much money going to local producers, foreign chipmakers can either help China's industry improve or try to get along without the market, says Rick Clemmer, chief executive officer of Dutch chipmaker **NXP**. "Over the next few years, it's not going to be the same as it is today, where we just ship semiconductors into China," says Clemmer,

\$5_b

Cost to build and equip a state-of-the-art chipmaking plant

whose company got 49 percent of its sales from the country last year. "You're going to have to do joint ventures and licenses."

South Korea and Taiwan used a similar strategy in the 1980s to accelerate the rise of

Samsung Electronics and Taiwan Semiconductor Manufacturing.

Neither of those companies, however, gets more than 12 percent of sales from its home market. No company in the business can afford to walk away from China, says Mark Li, an analyst at Sanford C. Bernstein. "Don't underestimate the impact of scale," he says.

Even the most advanced companies in the \$300 billion chip business are spending more cash and sharing more technology so they can keep hawking their wares in China. **Qualcomm**, the world's biggest maker of mobile processors and modems, paid a \$975 million fine in February to settle a Chinese anti-trust investigation; it also reduced the fees it charges Chinese phone makers to use its chips. Qualcomm has announced a \$150 million China investment fund, promised to set up a joint venture to design server chips in the mountainous southwestern province of Guizhou, and teamed with Chinese companies. It has agreed to outsource some production to Shanghai-based **Semiconductor Manufacturing International**.

Not to be outdone, Intel, which gets one-fifth of its \$56 billion annual revenue from China, has committed more than \$3 billion since September to upgrade its Chinese plants and to invest in state-run mobile chipmakers. It's managed to avoid roadblocks from Chinese regulators, as has **NXP**, which through a joint venture with **Datang Telecom Technology** has become

China's biggest supplier of chips used in cars and trucks. Qualcomm and Intel declined to comment for this story.

The foreign chipmakers' advantage is experience in building and operating the factories that drive the business. A state-of-the-art plant costs more than \$5 billion to build and equip and can become obsolete in as little as five years. Until Chinese companies can match the technology and designs of foreign partners, they'll need help, says Rajiv Ramaswami, head of networking chips at **Broadcom**. "They use us not because they love us, but because they need us," he says. "The minute that stops, we're out."

For now, major chipmakers can mostly count on China needing them as much as they need China, says Betsy Van Hees, an analyst at Wedbush Securities. But given the nation's deep pockets, "It's a very real threat to the semiconductor industry," she says. "Just think where they'll be in 10 years." —*Ian King*

The bottom line Foreign chipmakers are working to avoid getting shut out of China as it boosts its homegrown industry.

Software

Dropbox Struggles to Think in Dollars



▶ Its valuation soars, but competitors are catching up

▶ Revenue is "the oxygen that allows this company to continue breathing"

Dropbox made itself a household name by giving away cloud storage. The eight-year-old company, valued at \$10 billion, had 300 million registered users a year ago; now it's got 400 million. Its two-year-old effort to make money from business users has been less impressive. While Dropbox led the \$904 million global market for business file-sharing last year with about a 24 percent share, No. 2 **Box** and No. 3 **Microsoft** each took about 21 percent and doubled their

slice of the pie, growing almost twice as fast, according to researcher IDC.

Dropbox's paid business version lets users distinguish between personal and business documents and gives IT staff more control over the latter. But the company has been slow to add the level of security now common in office cloud software; Chief Executive Officer Drew Houston acknowledges that Dropbox has yet to figure out some basic elements of its sales strategy, including whether to focus on direct sales or partnerships. "We're trying a lot of different things," he says.

Dennis Woodside, Dropbox's first chief operating officer, is leading those efforts. A year ago, Houston hired Woodside, then the CEO of Motorola Mobility, to craft a more detailed business plan that could turn a company with more than \$400 million in annualized revenue into one that makes billions. Both men say much of that process has required an adjustment period among Dropbox staffers, including the coders who thought in terms of products and rarely spared a thought for selling them. "One of the things Dennis did early on was establish a belief system around revenue as the oxygen that allows this company to continue breathing, to continue to see another day," says Marc Leibowitz, a Woodside lieutenant who heads partnerships.

Woodside, who jumped to Dropbox while **Google** was selling Motorola to **Lenovo**, made his name running Google's foreign sales divisions. In the past year one of his biggest achievements has been to accelerate a hiring process that Houston says had been "ponderous." He filled empty senior positions (head of marketing, head of HR), opened five offices abroad to serve the 70 percent of Dropbox customers who aren't in the U.S., and doubled the company's head count to 1,200, mostly by beefing up the sales team. "My view is: Speed is what is going to win," Woodside says, and having a bunch of empty chairs in the conference room means you're losing. "That creates some tension now and then" with Houston, he adds.

Under Woodside, Dropbox has struck partnerships with telecommunications companies **Vodafone** and **SoftBank** to help distribute its software. Meanwhile, Microsoft has hedged its bets on its own service by making Dropbox compatible with online and mobile versions

of Office. Google Executive Chairman Eric Schmidt, who's previously worked closely with Woodside, says he's interested in making Dropbox compatible with Google's business software, too, even though his company is, like Microsoft, one of Dropbox's primary rivals. "The ideal scenario is that Dropbox is an integrated partner with Google in a whole bunch of areas," Schmidt says. "We're all growing a large cloud-computing platform together."

More than 100,000 companies have signed contracts to use Dropbox for Business, which costs \$150 a year per employee. That's up from 50,000 a year ago, the company says, but it wouldn't provide more details of its sales during Woodside's tenure. Woodside says sales have been too volatile, and he's trying to add a degree of stability.

Stability may be in short supply in the company's executive ranks. Ilya Fushman, the head of product for Dropbox for Business, became a venture capitalist in June. The company's head of design, Gentry Underwood, has stepped down, too, though he remains with Dropbox in an unspecified capacity. Woodside hasn't been able to hire an overall head of product management, the person who'd be trying to match the security and other features in place at Microsoft and Box.

Box, which went public in January, is something of a cautionary tale for Houston and Woodside. Its total 2014 revenue was about 60 percent of Dropbox's, according to IDC, but its market value is now only one-fifth of Dropbox's private valuation, suggesting that the office cloud market may not grow fast enough to bridge the gap between investor fantasy and reality.

Like Box, "Dropbox has been around a long time now," and it's past due to figure out a business model, says Ben Thompson, an analyst at consultant Stratchery. Still, Houston remains cautiously optimistic—after all, Dropbox's revenue grew more than 50 percent last year. "We're kind of in the phase where, like, we've put our pick in the ground, and all this oil is coming up, and we've got to get it together here," he says.

—Eric Newcomer and Dina Bass

The bottom line Fast-growing Dropbox has seen its rivals gain ground as it struggles to come up with a clear business strategy.

Innovation

iPhone Microscope

Form and function

CellScope Loa is a video microscope that attaches to an iPhone. A custom app screens a patient's blood to check whether he can safely receive treatment for river blindness, an insect-borne infection that affects millions.

Innovators Thomas Nutman and Dan Fletcher

Ages 63 and 42

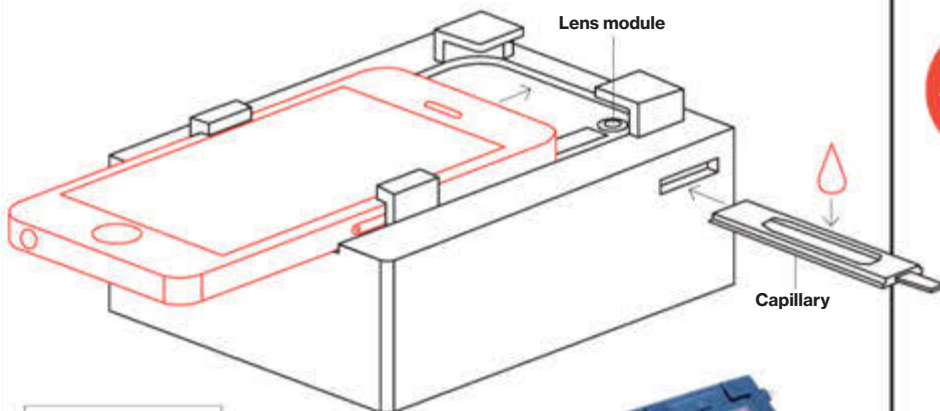
Head of clinical parasitology at the National Institutes of Health; bioengineering professor at the University of California at Berkeley

1.

Setup The iPhone clips to a plastic base housing the microscope, which a health worker loads with a small glass capillary of blood from a patient's finger prick.

Background A river blindness treatment campaign for sub-Saharan Africa has been thwarted for about two decades because the drug used was found to harm patients also infected with another parasite, called Loa Loa.

Origin Nutman had been searching for ways to rapidly screen for Loa Loa when he heard that Fletcher's Berkeley lab was developing microscope attachments for phone cameras.



Tests A study of 33 patients in Cameroon yielded zero false negatives and two false positives.

Funding The \$400,000 study was supported by the National Institute of Allergy and Infectious Diseases, the Bill & Melinda Gates Foundation, and Berkeley.

2.



Diagnosis The phone's camera records short video clips of the blood sample. Within minutes, CellScope's app reports how many Loa Loa parasites it spotted and whether the patient can take river blindness meds.

Next Steps

Fletcher and Nutman's team is taking 15 devices to Cameroon this summer and plans to spread 40 more throughout central Africa. Adrian Hopkins, director of the Mectizan Donation Program, who is working to eradicate river blindness, says a quick diagnostic tool would be a powerful asset. "You can go into a village, and you can exclude patients from treatment who are at a small risk," he says. "You can treat the rest." —John Tozzi

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Cotton's not king in Egypt anymore 42

Want to juice your 401(k)? Get a job at Renaissance 43

Americans love Greek stocks 44

In China, Jack Ma and bankers face off online 44

Bid/Ask: Safety first at 3M; Royal Ahold hits the grocery aisles 45



What's in Capital One's Wallet?

► Richard Fairbank built a banking powerhouse by zigging when others zagged

► “Capital One is a jackalope, not a jack rabbit but not exactly an antelope”

It's after midnight at an ice rink in suburban Virginia when Richard Fairbank, chief executive officer of **Capital One Financial**, steps off the ice in a sweat. As teammates trudge toward the locker room, he unlaces his skates and explains that he never planned to take up hockey, let alone join an amateur league. “When my kids learned to play, I did, too,” just to keep up with them, says Fairbank, 64, a father of eight. Two decades later, he co-owns the rink and the professional team that practices there, the Washington Capitals.

Fairbank built Capital One into the nation's seventh-largest commercial

bank by following a similarly serendipitous path. He turned a small consulting firm into a credit card juggernaut, buying or starting an eclectic mix of financial businesses along the way. The strategy has been a hit with investors. Since Capital One's initial public offering in 1994, the stock has climbed 1,576 percent, compared with a 200 percent gain in the KBW Bank Index. Fairbank's amassed a personal fortune of more than \$800 million, according to data compiled by Bloomberg.

Wall Street analysts, though, find Capital One something of a puzzle—a very different animal from the

conventional banks and standalone payments companies they're used to tracking. Capital One generates most of its revenue from credit cards and auto finance, where unlike rivals it aggressively courts less creditworthy borrowers. It does relatively little mortgage lending. It has an online bank supplemented by branches throughout the East Coast and in Texas and Louisiana. Its institutional arm includes units that focus on niches such as energy investment banking and commercial real estate in New York and a few other regions.

“Capital One is a jackalope, not a ►

◀ jack rabbit but not exactly an ante-lope,” says Brian Foran, an analyst at Autonomous Research. The bank’s earnings have fallen short of or exceeded analysts’ estimates by an average of 52 percent over the past decade, a wider margin than the eight big banks and credit card companies it competes with. “Their earnings should be more stable as they become more bank-like, but investors are still scratching their heads because every three months it’s still a crapshoot,” says Foran.

Now, with the Federal Reserve preparing to raise its benchmark interest rates for the first time since 2006 and Capital One bracing for a rise in loan defaults, analysts and investors have been looking for signs of Fairbank’s next move. Will he shift lending practices away from riskier borrowers? Will he focus on expanding his Internet banking unit? Or introduce some altogether new initiative? “He likes to be zigging when the world is zagging,” says Gary Perlin, who retired last year as chief financial officer. “He likes to be a contrarian, because that’s where he sees the greatest opportunities. And he’s willing to change his mind.”

Rinkside after his game, Fairbank talks hockey but demurs when invited to discuss strategy. People close to him say he worries about divulging ideas to competitors, because breaking with the pack is how he found success. Tatiana Stead, a company spokeswoman, later turned down interview requests, saying, “Rich has never been interested in developing a public profile.”

Fairbank became interested in management while running a community center in California in the 1970s, he said at a 2008 event. He earned an MBA at Stanford and landed at a Washington-area consulting firm where he and a colleague, Nigel Morris, tinkered with new ways of analyzing data to assess credit card risk. In the mid-’80s they traveled the country pitching their ideas on credit card marketing to more than 20 card-issuing banks. All the banks said no. Then a small lender in Virginia called Signet Bank hired Fairbank and Morris to expand its credit card division, and they put their theories to work. Using such strategies as tailoring interest rates to reflect borrowers’ credit-worthiness and luring customers with low teaser rates, the business thrived. In 1994, Signet spun off the unit as Capital One in an IPO, making

“Their earnings should be more stable...but investors are still scratching their heads because every three months it’s still a crapshoot”

Fairbank CEO and Morris president.

“They had a completely different way of doing business, a testing and learning approach that was com-

pletely innovative,” says Tom Brown, CEO of hedge fund Second Curve Capital, an adviser and investor in Capital One when it went public. Fairbank is “able to see into the future of where he needs to be and work backwards, even when no one else agrees.”

While building Capital One’s U.S. credit card business and adding auto lending during the ’90s, Fairbank made several attempts to branch out. He entered the mobile phone business and tried to create a marketing company for florists before companies such as 1-800-Flowers seized that role. None of the initiatives worked out, and all were abandoned.

One thing he didn’t do was buy deposit-taking banks. That changed in the early 2000s, when he went on a shopping spree. Among his major purchases: Hibernia National Bank in 2005, North Fork Bancorp in 2006, and ING Direct, the biggest U.S. online lender, in 2012. “I wasn’t a fan of the bank strategy,” says Moshe Orenbuch, an analyst at Credit Suisse. “It never generated the earnings that were originally projected, and too much of the rewards went to other companies’ shareholders. He paid a lot for the banks he bought.” Still, Orenbuch and other critics concede the acquisitions had at least one benefit: Customers’ deposits helped Capital One weather the 2008 financial crisis when other funding sources froze.

In October, Fairbank began warning that more credit card debt and auto loans will sour. While the bank increased its provisions for credit losses by 27 percent, to \$935 million, in the first quarter, Capital One hasn’t issued a forecast of future credit losses. “There’s a lot of uncertainty,” says William Ryan at research firm Portales Partners. “There’s more credit volatility in their business mix, which makes them more unpredictable.”

One of Fairbank’s top priorities is bolstering Capital One’s digital and mobile services. He is building innovation labs in San Francisco and New York and working with companies such as **Apple and Uber Technologies**

Fairbank

on mobile payments systems. David Ellison, a money manager who’s specialized in bank stocks for 30 years, is betting Fairbank will keep Capital One ahead of the pack. “Capital One has managed to be on the right side of the industry during the most tumultuous period in finance,” says Ellison, who runs the Hennessy Large Cap Financial Fund, which owns shares of Capital One. “He’s got lots of dry powder to play with down the road.”

—Elizabeth Dexheimer

The bottom line Capital One’s stock is up 1,576 percent since its IPO, thanks in part to the CEO’s scattershot strategy.

Commodities

Brace Yourself for Scratchy Sheets

▶ Egypt cuts back on subsidies for its prized cotton

▶ “I don’t think any other producer can replicate it”

Egyptian cotton dominated the colonial economy in the age of Queen Victoria and became the standard for the world’s finest linens and clothing. Two centuries later, companies from **Hugo Boss** to **Christian Dior** still prize the fiber for its softness and durability.

In Egypt, though, farmers are abandoning a crop that’s been almost as much a part of the nation’s identity as the pyramids. They’re switching to grains because long-fiber cotton isn’t profitable without government aid, and the government is ending cash subsidies as the country wrestles with one of the biggest budget deficits in the Middle East. Production probably will tumble 35 percent in the next growing season, to 340,000 bales, the lowest on record, according to the U.S. Department of

Agriculture. “The quality characteristics are unique,” says Andrei Guitchounts, director of trade analysis at the International Cotton Advisory Committee. “If they lose this production, I don’t think any

3%

Egyptian and other premium cotton’s share of the global cotton market



other producer can replicate it.”

Egyptian cotton is considered the finest of all varieties because it produces an “extremely soft and supple” weave, as Martha Stewart says on her website. Its long fibers mean there’s less lint fuzz after washing, and the fabric holds up better over time. The **strands** are usually at least 35 millimeters long, compared with 27 millimeters for other varieties. “We are very scared to lose this good cotton,” says Aldo Pienzi of **Albini Group**, an Italian maker of fabric for designers such as **Hermès** and Christian Dior.

Egypt’s output has been declining for three decades as textile makers shift to cheaper, lower-quality fiber from Asia and fabrics such as polyester. Demand for premium cotton accounts for less than 3 percent of the global cotton market. Egypt, which has become the world’s biggest wheat importer because it can’t grow enough grain to meet rising demand for bread, decided it no longer made sense to spend so much on cotton. The government said in January it won’t provide cash subsidies next season because there’s not enough international demand and the crop is declining in quality, says Eid Hawash, an agriculture ministry spokesman.

Last year the government gave growers 1,400 Egyptian pounds (\$184) per *feddan*, the equivalent of about an acre. The government will now provide only seed and fertilizer to farmers who have sales contracts with buyers before the season begins. That will lead to fewer subsidies because exporters and weaving companies typically won’t agree on a price before the crop is grown, says Mefreh El-Beltagi, head of Egypt’s cotton exporters association.

Sabry Hassafy says he’s cutting back on cotton his family has grown for three generations in the northern Beheira province. This season, he sowed cotton on one feddan, down from 10 last year, and may give it up entirely next season to focus on corn and fodder crops. His cotton will earn about 6,000 pounds,

while his costs will include 3,000 pounds for labor, 1,000 pounds for fertilizer, and 2,000 pounds for water and seed. “Cotton for my grandfather and father was a very lucrative crop,” Hassafy says. “It was a source of national pride to farmers. Now everyone avoids it.” —*Salma El Wardany and Whitney McFerron*

The bottom line Egypt may produce only 340,000 bales of cotton this year, the least on record, as subsidies vanish.

Investing

A Hedge Fund’s Golden Perk

► Renaissance employees get a no-fee, tax-free ticket to wealth

► “The issue is tax fairness... the rest of us end up paying more”

Employees of **Renaissance Technologies** have long had one of the sweetest perks in the hedge fund world: a chance to invest in the company’s Medallion fund, the wildly profitable investment vehicle created by Renaissance founder James Simons. Now, after four years of legal work and two waivers from the U.S. Department of Labor, Renaissance is giving its employees an even richer opportunity—a chance to invest in Medallion in their tax-free and tax-deferred retirement

accounts, and without paying fees.

The opportunity to accumulate untaxed gains in Medallion could lead to an extraordinary payoff for Renaissance employees. The loser will be the U.S. Treasury, which stands to miss out on many millions of tax dollars. “The issue is tax fairness,” says Bill Parish, an investment adviser in Portland, Ore., who’s written on his blog about Renaissance. “To the extent that they’re eliminating taxes by stuffing deals in their retirement accounts, the rest of us end up paying more.” Jonathan Gasthalter, a Renaissance spokesman, declined to comment.

Medallion, which uses computer algorithms to trade stocks, bonds, and derivatives and uses leverage to boost returns, has long been one of the world’s best-performing hedge funds. It returned a 98.2 percent gain in 2008, the year the Standard & Poor’s 500-stock index lost 38.5 percent. From 2001 through 2013, its worst year was a 21 percent gain, after subtracting fees.

As with mutual funds, hedge fund investors must pay annual taxes on the fund’s realized gains. Since Medallion typically makes much of its money through short-term trades, profits are taxed at short-term capital-gains rates, which are higher than those for long-term gains. So for the period from 2001 through 2013, a \$300,000 initial investment would have turned into \$4.7 million after taxes and fees (using today’s tax rates). On a tax-free basis, that \$300,000 would have risen to \$26.3 million. Eliminating

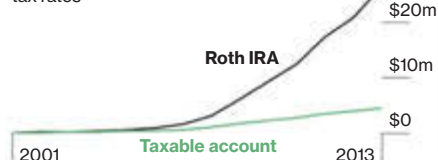
A Nice Spot for a Nest Egg

Medallion regularly trounces the S&P 500-stock index

■ Medallion fund
■ S&P 500



How \$300,000 invested in Medallion would have grown in a taxable and untaxed account, using today’s tax rates



◀ the company's charges—a 5 percent management fee and 20 percent to 44 percent of profits—would make those numbers far bigger.

Renaissance's regulatory filings and correspondence tell the story of its tax coup. The first step was to help employees take advantage of a change in federal law that allowed high earners to open Roth IRAs. In 2010, Renaissance terminated its 401(k) plan and transferred employees' balances into standard individual retirement accounts. That year, the government started to allow people earning more than \$100,000 a year to convert IRAs into Roth IRAs by paying income taxes on their IRA balances. Money put into a Roth IRA grows tax-free, as it does in a conventional IRA. The difference is that IRA withdrawals are taxable; Roth IRA withdrawals are not.

The next step was getting permission from the Labor Department, which oversees retirement accounts, for Renaissance employees to invest retirement money in the Medallion fund. Hedge funds are usually off-limits for 401(k) savers because they are risky, illiquid, and not publicly traded. The company argued that the exemption would benefit its employees, because Medallion was outperforming the everyday mutual funds available under its old 401(k), which was administered by Fidelity Investments. "The sole and exclusive reason why Renaissance has gone through the effort and expense to seek this exemption," the company wrote to the Labor Department in 2011, "is to provide a benefit to its employees that other firms do not." After a back-and-forth with Renaissance that yielded a foot-high stack of documents, the Labor Department granted the exemption in 2012. (The average balance in Renaissance's IRA plan was about \$350,000 when it started that year.)

That meant Renaissance employees who had converted to a Roth IRA would be able to withdraw their Medallion profits tax-free.

While seeking the exemption for IRAs, Renaissance set up a new 401(k) plan, then returned to the Labor Department to ask permission for Medallion to also be one of its investment options. In November 2014 the department said yes. For employees, the advantage of a 401(k) over an IRA is that the annual contribution limits are higher.

Other hedge funds have included their own funds in 401(k) lineups, but Renaissance's combination of IRAs and 401(k)s, as well as its two government exemptions, are unusual. "It's quite amazing," says Steve Rosenthal, a senior fellow at the Tax Policy Center in Washington. "They're very tax-savvy."

Michael Trupo, a Labor Department spokesman, says, "We review each of these applications case by case." Ivan Strasfeld, who ran the Labor Department's exemptions office until early 2012 and was involved in early discussions about the Renaissance request, says he doubted the exemptions were a tough call for the department, because its main concern is retirement security for employees rather than maximizing tax receipts. "These investors were very familiar with their own hedge fund," Strasfeld says.

People who work for Renaissance, which manages about \$23 billion, tend to be well off. As of 2011, about 100 of 275 employees were "qualified purchasers," according to U.S. Securities and Exchange Commission guidelines, meaning they generally had at least \$5 million in assets to invest. An additional 125 were accredited investors, generally worth at least \$1 million. They stand to get a lot richer. "There shouldn't be two sets of rules—one for sophisticated organizations leveraging

a complex tax system to their benefit and another for middle-class Americans trying to save for retirement," says Senator Ron Wyden of Oregon, the top Democrat on the Finance Committee, who's been probing large retirement accounts. "This is an issue of fairness, and taxpayers end up paying the price." —Richard Rubin and Margaret Collins

The bottom line Renaissance employees can save millions in taxes by investing IRA and 401(k) contributions in the Medallion fund.

China

Banks Challenge Alibaba On Its Own Ground

- ▶ Consumers benefit as new websites offer discounts and deals
- ▶ "Doing e-commerce is a defense as well as a counterattack"

It's a battle for the Chinese consumer: In one corner is billionaire Jack Ma's **Alibaba Group**, China's biggest online retailer. In the other are the country's biggest banks. On June 25, Alibaba, which already operates a payments system and a money-market fund, plans to launch MYbank to take deposits and make loans online. At least six banks are striking back by pushing into the business Ma pioneered in China—online malls. "China's banks have woken up and realized that the challenge from Alibaba's entry into banking is for real," says David He, a Hong Kong-based partner and managing director at Boston Consulting Group. "For them, doing e-commerce is a defense as well as a counterattack."

Industrial & Commercial Bank of China, the world's most profitable

Greece Betting on a Bounceback

Americans are the biggest foreign owners of Greek stocks. "U.S. investors have been programmed for years that they will get bailed out," says Kevin Kelly, chief investment officer at Recon Capital Partners. "So they are more inclined to take risks in Greece."

—Sofia Horta e Costa

U.S. investors hold about a quarter of the Greek stock owned by foreigners

U.S.	24.7%
Cyprus	17.3%
Luxembourg	11.6%
U.K.	9.4%
Germany	8.3%

U.S. holdings amount to \$5.7 billion—about the market value of Dunkin' Brands



Global X FTSE Greece 20 ETF

Tracks an index of 20 leading Greek stocks



company, has been building a platform that allows retailers to sell the bank's customers wine, shampoo, appliances, and more. The site, called Easy to Buy, has posted sales of 130 billion yuan (\$21 billion) since January, and ICBC expects the total to reach 300 billion yuan by yearend. By comparison, Alibaba's Tmall had sales of 763 billion yuan in 2014, and online retailer **JD.com** was ranked No. 2 at 260 billion yuan. ICBC customers can also purchase gold bars, luxury cars, travel packages, and even apartments on Easy to Buy. Buyers can get a discount of almost 10 percent on some homes and lower rates on mortgages from the bank. More than 1,000 apartments worth 1.1 billion yuan have been sold on Easy to Buy.

Other banks are offering deals or finding different ways to set themselves apart. **China Merchants Bank's** online shop offers a 30 percent discount on Prada bags, as well as zero interest and free shipping on purchases made on installments through its credit cards. **Bank of Communications'** site sells merchandise and allows customers to book air tickets and hotels. "Everyone is trying to improve on the consumer experience," says Joe Ngai, Hong Kong-based head of McKinsey's banking practice. "This is a great thing for the consumer."

While revenue from all online retailing in China is expected to reach 4 trillion yuan this year, says the China e-Business Research Center, making money is not the banks' top priority in setting up shopping sites. "It's not going to become a profit engine," says He. "But it offers invaluable support to their core business by extending their product line, increasing customer stickiness, getting more data, and adapting to the digital era." ICBC and Alibaba declined to comment.

Chinese banks may be pointing the way for the industry world-wide. "The future of finance, including banking, no longer hinges on brick-and-mortar operations, but integration with the Web, mobile, and serving customers anywhere 24/7," says Chen Xingyu, a Shanghai-based analyst at Phillip Securities Research. "Chinese banks seem to already have a leg up in finance 2.0 over many global rivals."

—*Bloomberg News*

The bottom line ICBC's online mall, which sells real estate along with merchandise, may hit 300 billion yuan in sales this year.

Bid/Ask

By Kate Rooney



\$2.5b

3M does its biggest acquisition ever. The maker of Scotch tape and Post-it notes is buying Capital Safety from KKR, which took the company private for \$1.1 billion in 2012. Capital Safety's fall-protection gear, including harnesses, safety nets, and hard hats, will add to 3M's \$2.4 billion personal-safety business. This is the second billion-dollar deal this year for 3M, which typically focuses on research spending.

\$48b

Williams rebuffs an overture. The offer from Energy Transfer Equity was conditioned on Williams abandoning its \$14 billion purchase of Williams Partners, a subsidiary.

\$47b

Anthem goes after a rival health insurer. Cigna said no to the bid, which would have been the biggest ever in the health insurance industry.

\$24.8b

Enbridge Income Fund Holdings buys assets from its parent. The Calgary-based holding company will buy Enbridge Inc.'s Canadian liquid pipeline business.

\$11b

Bouygues rejects a bid for its wireless business. The offer came from Altice, Patrick Drahi's cable and TV company, which outbid Bouygues for SFR last year.

\$10.4b

Royal Ahold expands in the grocery business. The parent of Stop & Shop is buying Delhaize Group, owner of the Food Lion and Hannaford chains.

\$7.6b



Lone Star adds apartments. The private equity firm is acquiring Home Properties, an apartment landlord that also manages commercial space.

\$1.9b

Momo's CEO wants to take his company private. Yan Tang, who co-founded the Chinese social network, is teaming with outside investment firms for the bid.



WHY A BANK SHOULD CARE ABOUT SPAGHETTI AND MEATBALLS

Over 20 million kids in America lack access to healthy food. So, a company called Revolution Foods came up with a solution: affordable, nutritious, kid-inspired meals, available in schools and stores.

To make an impact, they needed capital, financial advice and guidance. With Citi's support, they went from a small kitchen to employing more than 1,000 people, serving a million meals a week nationwide. Now Citi is helping the company expand, as they continue their mission to make nourishing food accessible to all.

For over 200 years, Citi's job has been to believe in people and to help make their ideas a reality.

citi.com/progress



Bumping up Toronto's hip quotient 48

Landmarking storied restaurants in San Francisco 49

Hot wheels: From the London Eye to the High Roller 50

Kansas City gets some smarts, with help from Cisco and Sprint 51



The Very Hungry Caterpillar

Where would Peoria be without **Caterpillar**? The world's largest maker of mining and construction equipment has made its home in the Illinois city of 115,800 since 1967. About 15,400 people in Peoria and surrounding towns draw a paycheck from CAT, making the company the largest employer in the area. Its pres-

ence is visible everywhere, from its headquarters at 100 NE Adams Street to the playground outfitted with a miniature tractor and skid-steer loader at the Shoppes at Grand Prairie mall. Caterpillar has put "Peoria on the map as a global center for business," says Andrew Greenlee, assistant professor of urban planning at the University of Illinois at Urbana-Champaign.

That long and fruitful relationship was in jeopardy a few years ago when Illinois enacted a temporary hike in the corporate income tax, raising it from 4.8 percent to 7 percent. (The rate has since rolled back to 5.25 percent.) In a March 2011 letter to then-Governor Pat Quinn, Caterpillar's chairman and chief executive officer, Doug Oberhelman,

wrote, "I never really considered living anywhere else, and certainly never considered the possibility of Caterpillar relocating. But I have to admit, the policymakers in Springfield seem to make

it harder by the day." The missive, a copy of which was obtained by the Lee Enterprises chain of newspapers, went on to say that at least four

► It's doubling down on Peoria after being wooed by other states

► "We really feel confident a lot of these stars are aligning"

states were wooing the company. “I have been called, ‘cornered’ in meetings, and ‘wined and dined’—the heat is on,” wrote Caterpillar’s boss.

Oberhelman later tried to reassure locals that the company would remain in Peoria, but the guarantee didn’t come until February, when Caterpillar unveiled plans for a new headquarters in the city’s downtown. The 31-acre campus will span six city blocks near the riverfront and will be built in stages over the course of a decade. When completed, it will have three nine-story office towers connected by a three-story building with a green roof and a facade wrapped in metal cladding painted in CAT’s trademark yellow. The complex will accommodate 3,200 employees—almost 1,000 more than now work at the company’s central administration building, which will be the last thing to be torn down as the new campus goes up.

Caterpillar decided to stay in Peoria partly because its roots in the area are deep, says Sri Srinath, managing director of the global headquarters project. In a longtime ritual, visiting customers first stop in at HQ to meet the top brass and are later whisked off to a plant in East Peoria to watch the tractors being made. Then it’s on to the company’s 2,500-acre proving grounds in nearby Washington, where the metal monsters are put through their paces. Illinois Governor Bruce Rauner, who was present at the February announcement, noted that the company didn’t get any special perks to remain in the state. “Caterpillar never came to me or the prior governor and asked for any special deal,” he said.

For the design of its corporate campus, Caterpillar studied the headquarters of Silicon Valley companies such as Google, as well as

manufacturer Harley-Davidson in Milwaukee and drugmaker Eli Lilly in Indianapolis, to find the right mix of features. The lead architect on the project, **Gensler**, has designed headquarters for Facebook and Airbnb. For Caterpillar, the West Coast firm conceived an open campus with spaces where employees, along with other Peoria residents, can eat, shop, and socialize. There also will be an on-site fitness center and child care.

Officials in Peoria are hopeful that Caterpillar’s expansion will add momentum to a \$30 million, five-year effort to make over the city’s warehouse district, says Christopher Setti, assistant city manager. The few residential properties in the downtown area often have waiting lists because of a dearth of apartments, says Tom Berwanger, a director at **D1 Development**. In May the local developer announced plans to turn an 80,000-square-foot building into a mix of rental apartments, shops, and offices.

The city and the company are courting millennials. A year ago, 26-year-old Ali Morrison became the fifth generation in her family to work for Caterpillar. She says she decided to settle in Peoria because of the quality of life and her career prospects. “It’s not unusual for me to be on a call with the U.K. in the morning, Brazil in afternoon, and then maybe pick up an e-mail in the evening from India or China,” says Morrison, who works for internal communications. “I have the opportunity to stay in the Peoria area but also experience a lot of great global opportunities.”

As the new towers rise, Peoria Mayor Jim Ardis says he expects other companies to become more interested in the city. “When you say Caterpillar, that iconic name, has committed to building

a new world headquarters, people say, ‘What does Caterpillar know that we don’t know?’ which is great for us,” Ardis says. “We really feel confident a lot of these stars are aligning.”

—*Shruti Date Singh*

The bottom line Caterpillar’s plans for Peoria’s downtown may hasten the development of housing and retail.

Marketing

Drake Puts ‘the 6’ On the Map



► The rapper tirelessly promotes Toronto without getting paid for it

► “It’s great to see Drake using that kind of reach to talk about” the city

If you happen to be one of Will Smith’s 73 million followers on Facebook, you might have caught a selfie the *Men in Black* star took on June 10 with the caption “Lovin’ the 6.” If you didn’t recognize the landmark in the background—the CN Tower, once the tallest structure in the world—it’s unlikely you’d have the faintest clue what “the 6” is. Unless, that is, you listen to the music of Drake. The 6 is the chart-topping rapper’s preferred nickname for Toronto, his hometown, drawn from a common digit in its two area codes: 416 and 647.

With a population of 2.8 million, Toronto recently overtook Chicago as North America’s fourth-largest city. It regularly lands in the top tier of global rankings for quality of life, business, safety, and real estate. Yet several city-funded marketing campaigns have done little to raise its profile or stop it from occasionally being called Hogtown. Operating without the blessing of government officials, Drake seems to be making headway where they’ve failed. There’s Drake flying past the city’s skyline in a private jet in the video for his song *Started From the Bottom*; here’s Drake showing off his 416 and CN Tower

A rendering of Caterpillar’s new HQ

Pride of place
is a defining feature
of hip-hop

Branded by Drake

"Yo, the city is mine (which one?)
T-O-R-O-N-T-O
D-R-A-K-E that's me"
—*City Is Mine*

A reference to the
Toronto suburb of
Scarborough

"F--- all that rap-to-pay-your-bill s---
I'm on some Raptors-pay-my-bills s---"
—*0 to 100/the Catch Up*

The NBA's Raptors
hired Drake as their
official ambassador
in 2013

"I take Eglinton to 401 East
And exit at Markham road in the East End
Where all the pretty girls are sleeping"
—*Connect*

"Don't ever take advice, that was great advice
You and the six raised me right, that s--- saved my life"
—*You & the 6*

Six is a common digit in
the city's 416 and 647
area codes

tattoos on Instagram. He hosts his own hip-hop music festival each summer, which turns Toronto into the center of the rap universe for three days.

Other cities regularly tap celebrities as spokespeople (New York conferred the honor on Taylor Swift, for instance), but "pure celebrity isn't enough," says Toronto Mayor John Tory. "For someone who has 10 million followers on Instagram and 23 million on Twitter, it's great to see Drake using that kind of reach to talk about Toronto," Tory says. "He brings the cool side of Toronto that the mayor of Toronto just can't." Drake and his representatives wouldn't comment for this story.

Until the mid-1970s, Toronto played second fiddle to cosmopolitan Montreal. Then the Quebec separatist movement triggered a massive shift of corporate wealth to Toronto and turned the city into a magnet for immigrants. "There was a real desire to establish an identity," says David Dunne, an adjunct professor of marketing at the University of Toronto's Rotman School of Management. But officials struggled to define one, because the city was growing so fast. "You didn't know which way the city's culture would develop," says Dunne, who moved to Toronto from Ireland in 1979.

Over the decades, Toronto's leaders have introduced a series of ham-handed marketing campaigns. These have included slogans such as "Diversity our strength," "A world within a city," and "Expect the world" that tried to capture the polyglot nature of a city where almost half the residents are foreign-born. Then there was the Toronto Unlimited campaign, which the city's tourism agency spawned in 2005 with the aid of outside consultants. "It was the dumbest waste of \$4 million," says JT Singh, a brand consultant in the

city who's worked on campaigns for Toronto's entertainment district, Shanghai, and North Korea's Pyongyang. "Unfortunately, cities worldwide get sold on these ineffective initiatives by conventional branding agencies," Singh says. "They brand a city like they would brand a bar of soap or a soda can."

Drake's only official role in Toronto is as global ambassador for the NBA Raptors. Until the team hired him in 2013, the Raptors had failed to make an impression on either the city or the league, regardless of its on-court performance. It didn't help that many of the players openly disdained Toronto—too cold, too Canadian, too white—and requested trades. Sitting courtside, Drake proudly sports Raptors gear. He parties with players and helped the city land next year's All-Star Game. In 2014 he provided the voice-over for the team's We the North campaign, a pre-playoff triumph of unabashedly Torontonians chest thumping. Suddenly, Raptors hats and jerseys could be spotted not only on the streets of Toronto, but also on those of U.S. cities. Average attendance at games is 17 percent higher than in the 2011-12 season.

Drake "comes from the world of hip-hop, where pride of place has been a dominant social cue," says Dustin Rideout, vice president for strategy at the ad firm Sid Lee, who created the We the North campaign. It's hard to say whether the star's pride will have a positive effect on Toronto's economy, which was already humming. Average housing prices are up 11 percent since last May, and there are more than 100 new high- and midrise buildings under construction, second only to New York in North America. The number of overnight visitors passed 14 million in 2014; it's on track to hit a record this year, with the city hosting the Pan American

games on July 10-26. "We are finally on the radar now," Brendan Powell, a real estate agent in Toronto whose main clientele is international buyers, wrote in an e-mail. "I've lived in Tokyo, Miami, and New York, but I've never had more international people—especially Americans—comment that they hear 'Toronto is a really cool place.'"

—David Sax

The bottom line Toronto hosted 14 million visitors last year, a record. Rapper Drake has upped the city's cool factor.

Real Estate

Saving San Francisco's Landmark Businesses

► Lawmakers want to give grants to historic venues and their landlords

► "A lot of businesses that have been successful are struggling to stay"

Sam's Grill & Seafood Restaurant got its start as an oyster stall on a San Francisco pier in 1867, on the heels of the Gold Rush. But will it survive the technology boom? Managing partner Peter Quartaroli says he worries the eatery will be forced to move if his rent goes up when his lease expires in 2017. The Financial District restaurant is a relic, with a row of private, curtain-draped booths and walls lined with 115 hat hooks, one for each patron. "There's something about the longevity of businesses that helps establish an identity in the city," Quartaroli says. "And 148 years later, we're still standing, and I think it's important to keep that history."

The city is trying to preserve that legacy. San Francisco lawmakers are placing a measure on the November



On sale for \$45
at Drake's OVO
online shop



◀ ballot that would treat decades-old haunts such as Sam's as landmarks to help save them from runaway commercial rents and evictions. "Because of what's happening with the real estate market in San Francisco, a lot of businesses that have been successful are struggling to stay," says David Campos, a member of the city's Board of Supervisors who drafted the proposal. If approved by voters, Campos's measure would establish a Legacy Business Historic Preservation Fund, which would get \$3 million annually to distribute grants of as much as \$50,000 a year to qualifying businesses; it would also give as much as \$22,500 a year to landlords who extend leases of at least 10 years to those tenants.

An estimated 4,378 businesses closed or moved in 2014, compared with 693 in 1994, according to an October report by the city's Budget and Legislative Analyst. "There is an emerging anxiety given the rate of change that has occurred in San Francisco in recent years to do what we can to ensure that these places that really define San Francisco—its character and its soul—can remain in business," says Mike Buhler, executive director of San Francisco Heritage, an historic preservation group.

The ballot measure builds on legislation approved in March that sets up a Legacy Business Registry. Those businesses must be at least 30 years old, secure a nomination from one of the 11 supervisors or the mayor, show they've influenced the history of their

neighborhood, and agree to maintain their character. The registry will accept 300 businesses a year. Membership would be a prerequisite for receiving grants from the proposed fund.

Other cities, including Rome and Paris, have protections in place for historic businesses, but San Francisco would be the first in the U.S. to develop

Business closings and relocations in San Francisco

In 1994

693

In 2014 (estimated)

4,378

a program that gives legacy designations and helps fund operations, says Anthony Veerkamp, field director at the National Trust for Historic Preservation. According to a poll by David Binder

Research, 67 percent of city residents surveyed support creating the fund.

Small property owners with a single legacy tenant will be the most inclined to take part in the San Francisco program, says Ken Cleaveland, vice president for public policy at the Building Owners and Managers Association of San Francisco. He says the 10-year lease requirement could be a deterrent though, given the city's volatile real estate market. Most San Francisco leases are three to five years in length.

While rent control laws shield many San Francisco apartments from pricey rent hikes, no such

laws exist for retailers. Retail rents in downtown San Francisco in the first quarter rose 60 percent, to an average of \$68.73 per square foot, from \$42.93 in the same quarter five years ago, according to CBRE Group.

Isabel Fondevila, director of the **Roxie Theater**, says she plans to apply for the program. The Roxie, a fixture in the Mission District since 1909, now showcases independent films and documentaries. The funding, she says, "can shift the conversation between the landlords and the tenants from one of opposition to one of partnership, and that's something that the city needs urgently." In lease negotiations this year, the Roxie's landlord wanted to more than double the rent; the theater was able to secure a three-year extension with an 8 percent increase, thanks to a clause in the agreement requiring the rent to be comparable with that of properties with similar uses, Fondevila says.

Among the recent casualties of the tech boom is the **Elbo Room**, a music

FROM LEFT: CHARLES BOWMAN/ALAMY; JIM HANES/ALAMY; ANTHONY SOUTER/ALAMY; ERICK FESSA; DAVID WALLACE; COURTESY THE NEW YORK TIMES



Star of Nanchang ♦

Singapore Flyer

Asia's current tallest wheel has 28 capsules, each with a 28-person capacity—a number that symbolizes prosperity in Cantonese.

Tianjin Eye

The base straddles the Hai River, making it the only Ferris wheel built over a bridge.

Tourism Race to the Top

More than 20 Ferris wheels taller than 300 feet have been erected since 1997. Asia, in particular, has been a hot spot: China has eight, and Japan seven. —Kate Rooney

♦ Height and year opened

400 ft.

300 ft.

200 ft.

100 ft.

0 ft.

1995



Roue de Paris

A world traveler, it can be taken apart and reassembled elsewhere. It's been to Amsterdam and Bangkok, among other cities.

London Eye

Once the record holder for world's tallest, it was eclipsed in 2006 by China's Star of Nanchang. Coca-Cola acquired naming rights last year.



2005



200

venue and bar in the Mission. It will be demolished to make room for condominiums after its lease expires in October. "It's a bummer. There's nothing we can do," says Matt Shapiro, co-owner of the business, which opened in 1991. Property owners "are looking to reap the benefits of the housing market in San Francisco right now." —*Alison Vekshin*

The bottom line A ballot measure would create a \$3 million preservation fund to aid businesses that give San Francisco its character.

Infrastructure

Kansas City's Lights Really Will Be Bright

- ▶ Cisco and Sprint are teaming up on a \$15 million wireless project
- ▶ "We focused on building a communications foundation first"

In recent years the government of Kansas City, Mo., has launched projects that rely on the Internet to improve particular aspects of city life—avoiding traffic jams, finding a parking spot, and getting a Wi-Fi connection at the local sports arena. Then, in early 2014, networking equipment maker **Cisco Systems** suggested a more ambitious approach: design a technology platform capable of handling all of those services plus others that have yet to be dreamed up.

The first phase of the 10-year, \$15 million project will go into effect in spring, with the installation of 125 "smart" streetlights along the 2.2 mile route of a new streetcar line that will travel through the city's downtown. Cisco will supply most of the hardware, including some from partners such as **Sensity Systems**, which makes the sensor modules that will be embedded in the lights. Mobile carrier **Sprint** will maintain a Wi-Fi network throughout the area to handle the constant stream of data coming off those light poles. Smartphone users and area businesses will be able to tap the free Wi-Fi. The downtown will also be sprinkled with 25 digital kiosks, where visitors can look up information on landmarks and nearby shops and restaurants.

Cisco is funding an incubator so startups can develop and test apps that would exploit the IT infrastructure. "We focused on building a communications foundation first, rather than on any particular service," says Ashley Hand, who until recently was the city's chief information officer. "We're trying to create an ecosystem that will lead to the fast realization of new ideas."

Near term, the services will mostly deliver conveniences for tourists and residents of Kansas City's up-and-coming downtown, rather than cures for problems such as crime and aging infrastructure. Amy Glasmeier, an economic geography professor at Massachusetts Institute of Technology, says she'd prefer

"We've got more than enough business to keep us busy."

—*Clifford Thomas, a manager in Cisco's smart cities group*

to see computer centers for those who don't own PCs or sensors to identify gas leaks. Hand acknowledges that the city opted not to pursue some potential uses of the technology, such as video surveillance by police, to avoid controversy.

Nonetheless, the plan marks a significant milestone in the U.S., where only a few cities have rolled out "smart city" technologies, and mostly in a piecemeal fashion. That's in contrast with Barcelona, Dubai, Rio de Janeiro, and other cities that have installed integrated systems designed by companies like Cisco, **Siemens**, and **IBM**. Research firm IHS says that by 2025 there will be 88 smart cities, mostly in Europe and Asia.

Clifford Thomas, a manager in Cisco's smart cities group, says Kansas City Mayor Sly James and Hand stood out for their willingness to think big. "Honestly, if the mayor or city manager asks us to prove this approach is worthwhile, we run for the door," says Thomas, who's juggling more than 120 projects in 63 cities worldwide. "We've got more than enough business to keep us busy."

The streetcar project presented an opportunity to install sensor modules in the poles that deliver streetlighting and power to the trams. The motion-activated LED lights could deliver savings of more than 80 percent over traditional streetlights, says Hugh Martin, Sensity's chief executive officer. The modules also have video cameras that can spot obstructions on the tram line, along with sensors to measure temperature and snowfall. Longer term, the city hopes to add in-ground sensors to parking spots, with software to let drivers refill meters remotely. There are also plans to embed moisture sensors on underground pipes, so leaks can be detected.

Kansas City will pay only \$4 million of the project's cost. In the early years, the financial benefits will accrue in the form of savings on items such as electric bills. Longer term, the city could turn its smart infrastructure into a money maker. For instance, it could pocket a share of parking fees for directing sports fans to the nearest lots on nights when there are games at the Sprint Center.

—*Peter Burrows*

The bottom line Kansas City, Cisco, and Sprint are building a "smart" network to lower power costs and improve city services.

Dubai Eye
At 689 feet, it's poised to be the world's tallest when it opens next year.

New York Wheel
It's coming to the north shore of Staten Island in 2017 as part of a larger city-led effort to draw tourists to the often overlooked borough.



High Roller
The Caesars Entertainment property, the reigning champ, offers wedding packages in a private capsule starting at \$2,145. But make your toasts quick: One full rotation takes 30 minutes.



700 ft.
600 ft.
500 ft.
400 ft.
300 ft.
200 ft.
0 ft.

2015

2020



HOW MANY
LIGHT BULBS
DOES IT TAKE TO
CHANGE A CITY?

At one point, 40 percent of streetlights in Detroit didn't work. This made life even more difficult for a city that was already struggling.

The Public Lighting Authority of Detroit devised a plan to re-light the city. But finding a bank to finance the project during Detroit's bankruptcy was challenging. Citi stepped up and committed its own capital, which encouraged other investors. So far, thousands of new LED lights have been installed, lighting the way as a model for similar projects around the world.

For over 200 years, Citi's job has been to believe in people and help make their ideas a reality.



citi.com/progress





How Uber Rolls



To conquer America's quirkiest city, the
company unleashed its biggest weapon: Lobbyists
By Karen Weise

Illustrations by Scott Gelber

Charlie Hales, the mayor of Portland, Ore., was running a zoning hearing last December when he missed a call on his cell from David Plouffe, the campaign mastermind behind Barack Obama's ascent. Although Hales had never met him, Plouffe left a voice mail that had an air of charming familiarity, reminiscing about the 2008 rally when 75,000 Obama supporters thronged Portland's waterfront. "Sure love your city," Plouffe gushed. "I'm now working for Uber and would love to talk."

Hales, like many mayors in America, could probably guess why Plouffe was trying to reach him. Uber's made a name for itself by barging into cities and forcing politicians to respond. It started in 2010, providing swanky rides at the tap of an app in San Francisco. "I pushed a button, and a car showed up, and now I'm a pimp," Chief Executive Officer Travis Kalanick said four years ago. The company has since expanded to take on lower-cost taxi service in more than 300 cities across six continents, ballooning to a \$40 billion valuation. At the time of Plouffe's call, Uber already operated in several Portland suburbs, and over the previous few months Hales's staff had asked the company to please hold off on a Portland launch until the city could update taxi regulations. Plouffe may be a big name, but Hales didn't immediately call him back.

The next day, City Hall heard from a local reporter that Uber cars would hit the streets that very evening. The company's unauthorized kickoff put Hales in a bit of an artisanal pickle. Portland had just become the first city to

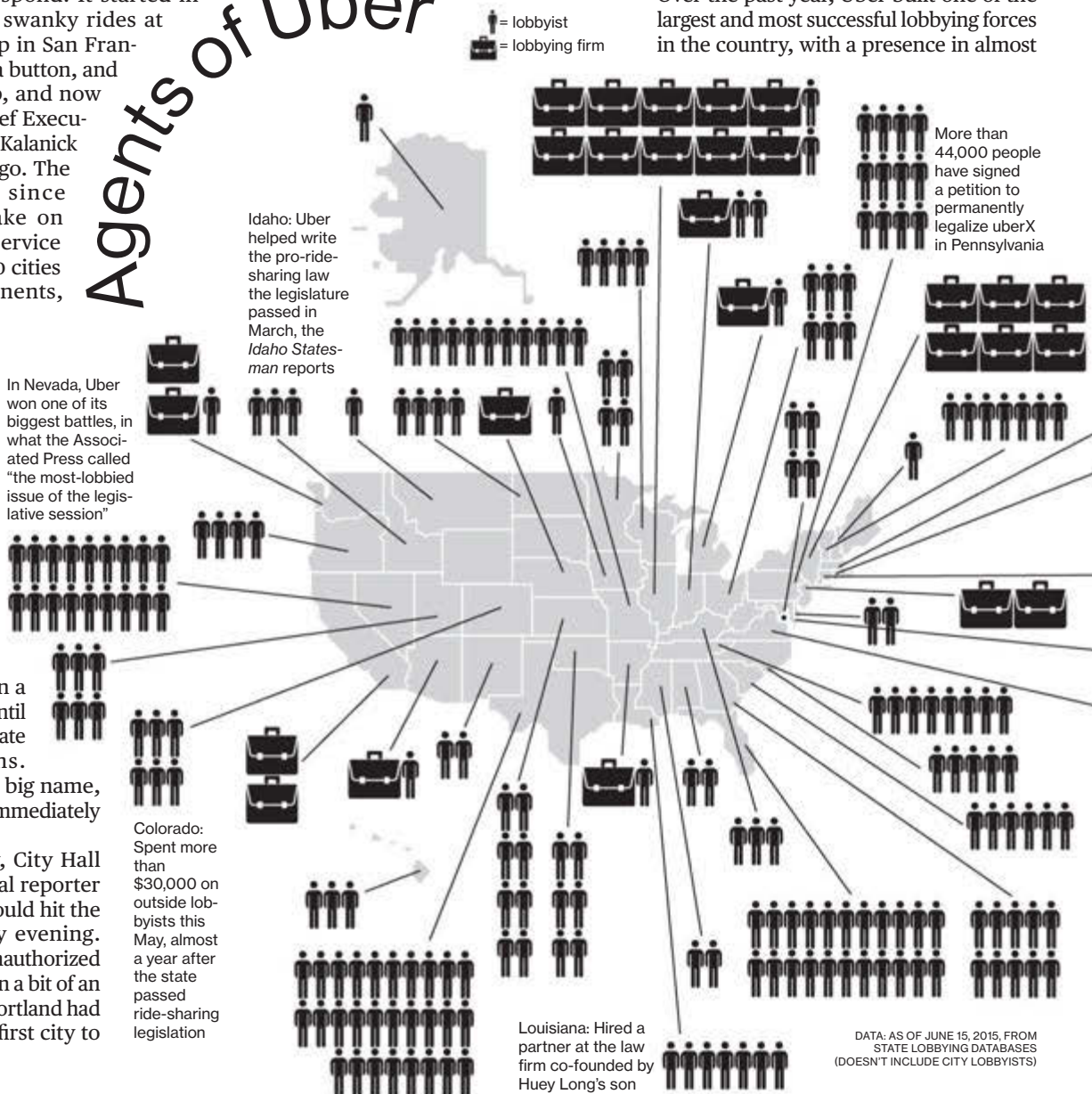
explicitly allow short-term rentals through Airbnb and other sites, and welcoming Uber could help build the city's sharing-economy brand, a logical extension of its communitarian roots. On the other hand, aggression is so not the Portland way.

Hales gathered Transportation Commissioner Steve Novick and three aides to call Plouffe. Hales would play the good cop to Novick's bad cop. The roles were fitting: Hales comes off like the thoughtful baby boomer dad on *Family Ties*, while Novick's known around town for his fiery wit. (In a campaign ad mocking the idea that voters should elect politicians who are relatable drinking buddies, Novick, who was born without a left hand, pops open a bottle of beer with his prosthetic metal hook. "Steve Novick," the voice-over said. "He's always found a way to get things done.") The group huddled around Hales's cell phone on speaker mode as the mayor dialed Plouffe.

A year ago, Colorado passed the first ride-sharing legislation in the country. Since then, about 50 U.S. jurisdictions have adopted ordinances recognizing Uber and Lyft as a new type of transit provider called "transportation network companies." Each government, whether municipal or state, goes through its own process to craft rules, but in the end, officials generally codify the insurance coverage, background-check policies, and inspection protocols Uber already has in place. Uber makes the rules; cities fall in line. There are some small differences between their regulations, but, as Plouffe says, "the core is remarkably similar."

The success, says Justin Kintz, Uber's head of public policy for North America, is "a tale as old as time—it's the power of the people." It's also a tale about the power of backroom lobbying. Although Uber promotes itself as a great disrupter, it's quickly mastered the old art of political influence. Over the past year, Uber built one of the largest and most successful lobbying forces in the country, with a presence in almost

Agents of Uber



every statehouse. It has 250 lobbyists and 29 lobbying firms registered in capitols around the nation, at least a third more than Wal-Mart Stores. That doesn't count municipal lobbyists. In Portland, the 28th-largest city in the U.S., 10 people would ultimately register to lobby on Uber's behalf. They'd become a constant force in City Hall. City officials say they'd never seen anything on this scale.

When Hales got through to Plouffe, he said he'd heard a "disturbing rumor" that Uber planned to start operations. "That," he said, "would be a bad way to start." Plouffe responded with a drawn-out silence. Before Plouffe mustered a reply, Novick erupted: "Mr. Plouffe, if you come to Portland without following our rules, we're going to throw the book at you!" But as Portland would learn, a city of 600,000 can play tough with a \$40 billion company, particularly one that is used to getting its way, for only so long.

Kicking off the pilot episode of the TV show *Portlandia*, actors Fred Armisen and Carrie Brownstein set the scene for the show's satirical wet kiss to the city. Portland, they sing, is a magical place of awesome weirdness. "It's like Portland's almost an alternative universe," Brownstein swoons. "In Portland, it's almost like cars don't exist. People ride bikes or double-decker bikes, they ride unicycles. They ride trams. They ride skateboards!"

The parody could double as an ad for the city's transportation department. Among urbanists, Portland's a transit darling. People can bike in protected lanes, ride the bus or MAX trains (one of the nation's busiest light-rail systems), or tool around in Smart

cars from car-sharing company Car2Go. But

there are holes, especially for residents living far from downtown, the disabled, and late-night partiers. The city's taxis have been known to fall short of demand. Portland has fewer cabs per resident than most comparable cities, and drivers take home just \$6.22 an hour, according to a 2012 survey. The taxi companies didn't hold traditional political power as major campaign donors or lobbying forces, but their furor succeeded in resisting, or at least delaying, change. It took a nasty four-year battle for a group of largely immigrant drivers to get permits in 2012 to

"If we end up in court, we will have to lose just based on resources"

start Union Cab, a driver-owned cooperative.

Uber first targeted Portland in 2013, when it wanted to introduce its luxury car service, UberBlack. It couldn't legally operate because a city ordinance required black-car trips to be reserved an hour in advance, the legacy of a 2009 agreement that carved out separate markets for hire cars and taxis. When Uber showed up, Hales had recently been elected, and his director of strategic initiatives, Josh Alpert, says overhauling the taxi rules was something on Hales's first-term to-do list.

In a town Portland's size, City Hall can juggle only so many issues. Alpert told Uber that before the city could deal with a taxi battle, it had to address more pressing matters, starting with the \$21.5 million budget shortfall Hales inherited. "I explained to them that there was going to be a process, and we were nowhere near starting that process," he says.

That didn't sit well with Uber. "Portland has some of the most extreme protectionist laws that we've seen around the country," Kalanick told a local TV station. A few days later, Uber defiantly said on its blog that "outdated local regulations" didn't prevent it from making deliveries, so it ran a one-day promotion serving ice cream around town. It was like when the company shuttled puppies from shelters to offices in 10 cities before the Super Bowl. In City Hall, the ice cream tasted like belligerence. "It was like, 'Whoaaaa,'" Alpert says. "I know every city says this, but we are not used to that in Portland. It was just all about Uber."

Uber soon asked the city's Private For-Hire Transportation Board—made up of industry reps, drivers, and community members—to remove the one-hour requirement. It also deployed some classic political strategies.

Plouffe likens customers to campaign volunteers, and the ice cream stunt provided the company with a database of consumers it could turn into advocates. In an era of low voter turnout, Uber has managed to get almost a million people to sign its petitions in the past year. "Not many private-sector companies have that kind of passionate set of consumers that will go the extra mile," Plouffe says. In Portland, almost 1,700 people signed a change.org petition to "tell Uber to bring

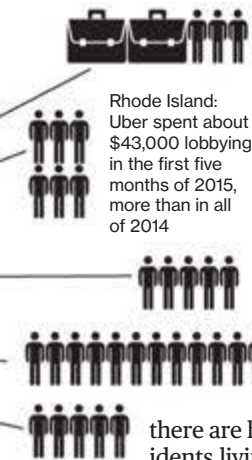
their stylish rides to Oregon." The company also solicited supportive letters from local business leaders.

Uber stopped pushing, as the company's focus across the country was shifting from black cars to the low-cost uberX service, which fell under a different set of regulations. "Uber, to their credit, did go away for a while," Alpert says.

When the company came back almost a year later, both the city and Uber had reason to think the negotiations would be fruitful. Uber had a new local face, General Manager for the Pacific Northwest Brooke Steger, whom Alpert calls "a much easier person to work with." And Portland had just crafted the Airbnb rules, which established that the city wasn't necessarily hostile to sharing-economy services.

Yet Uber was still Uber, and it began strangling Portland. It launched just to the north, in Vancouver, Wash. "Hey Portland," Uber taunted on its blog. "We are just across the river." Soon Uber started operating in several adjacent suburbs. "They basically forced their way into the market and surrounded us, then put the pressure on for us to do likewise," Hales later told a conference of mayors.

The city told Uber that updating the taxi regulations could, finally, happen soon, but first the transportation department had to fix Portland's pothole problem, which required finding millions of dollars in



“We won’t be able to keep

new revenue for the street maintenance budget. Around Thanksgiving, Uber was next in the queue. Uber wanted a firm time frame, which Alpert couldn’t give. “I kept telling them: ‘A little bit longer,’” Alpert says. “Strangely, at the last minute, when it was in sight, they were like, ‘Well, we’re done.’”

After Plouffe’s call to Hales, Uber went ahead with its unsanctioned Portland launch, throwing a party in a loft to show, the invite said, how Uber was “proud to call Portland (and all of its rain, quirks, and bridges) home.” Partygoers could take photos with protest signs or stop by a postcard station to “drop a note to Mayor Hales.” Uber canned the kinder motto, #WeWantUberPDX. In the first four hours, more than 7,000 people signed a petition now asserting #PDXNeedsUber.

The company released a video with the most Portlandish introduction it could muster, featuring an Uber driver dramatically navigating in the rain, crossing a bridge over the Willamette River, and giving a ride to the Unipiper, a well-known local who rides a unicycle while wearing a Darth Vader mask and playing a fire-breathing bagpipe.

After a weekend of scrambling, the city sued Uber on Monday. Although Uber’s fines would eventually total \$67,750, the city’s enforcement efforts evoked the Keystone Cops. Agents conducted stings, but Uber turned off the accounts of city staff so they couldn’t use the app. And at the time, the city believed it lacked the authority to impound cars. Still, the lawsuit captured attention. Portland residents on social media said the law-breaking felt “icky.”

Even the Unipiper backpedaled. “Wow, this whole #Uberpdx thing is really getting crazy,” he tweeted. “No they did not explain to me that they were going to launch illegally,” he wrote. “I do think Portland has been

slow to act.” (About the legality of the launch, an Uber spokeswoman now says: “Often regulations fail to keep pace with innovation. When Uber launched, no regulations existed for ride-sharing.”)

Uber’s rules-be-damned approach had served the company fairly well around the country, but the Portland showdown came at a time of particularly intense scrutiny. An executive had mused aloud about spying on journalists, an alleged rape by a driver in India made headlines worldwide, and two California district attorneys sued Uber, claiming it misled consumers about driver background checks. And there was Novick, the transportation commissioner in a city known—even mocked—for being progressive, telling the *New York Times* that “Uber seems like a bunch of thugs.”

Uber hired a new team of local lobbyists headed by Dan Bates, who used to work as Portland’s own lobbyist in the state capitol. Across the country, Uber’s lobbyists have similarly intimate connections. In Kansas, it hired Governor Sam Brownback’s former campaign manager and another lobbyist who also works for Koch Industries. In Connecticut, it contracted with a former House speaker’s firm, and in Illinois it brought on the former governor’s chief of staff.

Soon, Alpert’s phone rang. It was Mark Wiener, whom one local alt-weekly dubbed “The Man in the Shadows” and the “most powerful political consultant” in Portland. Wiener helped both Hales and Novick get elected and is known to work only with clients he thinks will win. Wiener said Uber wanted to know if Hales and Novick would consider a détente. Would they be open to a “conversation about a conversation?”

On a Saturday in mid-December, the two sides met at Wiener’s house. The mayor started by saying the conversation would go nowhere unless Uber stopped breaking the law. “He said it probably five times,” Alpert says. Uber’s Steger and Caitlin O’Neill, an in-house lobbyist who used to work as an organizer for criminal justice reform at the American Civil Liberties Union, apologized. “That was

a huge point for the mayor and commissioner to hear,” Alpert says.

Soon they sketched out a compromise. Uber would temporarily cease operations in Portland—a first for the company—and the city would put the lawsuit on hold and give Uber the deadline it wanted, promising to have a community task force figure out rules to get Uber back on the street by early April. It was a brilliant agreement. The city could look like it tamed Uber without costly litigation, and Uber cut in line and became a top political priority. It had a firm timeline, and if for some reason the process fell apart, Uber could say it tried to cooperate. The *Wall Street Journal* cited the agreement to show “How Sharp-Elbowed Uber Is Trying to Make Nice.”

And so Steger and O’Neill found themselves in a packed, fluorescent-lit city conference room in mid-January listening to a gray-haired facilitator kick off the task force with a long-winded joke about parrots and magicians. Over the coming weeks, the task force would hear a host of presentations, from the history of transportation in the city, starting with jitneys and the horse-drawn carriage, to testimony from taxi companies, drivers, and the public. Before various sessions, Uber mobilized its supporters. It hosted breakfast for drivers at a Nuevo Latino restaurant on the morning of their “listening session,” then drinks at an old timey cocktail bar, Raven & Rose, before the public hearing.

In mid-February, O’Neill and Steger sat before the task force to formally pitch their case. Lyft, a competing company that has also been trying to enter the Portland market, was there, too. Again, Uber seemed firmly in control. “I’ve gone through this regulatory process that you all are going through now in several other counties,” O’Neill said leaning into the microphone. “We want to be a resource to you.” She and Steger then ticked through points designed to position Uber as a rule-abiding company that saves lives.

Uber’s policy group has its own team of data scientists, and its presentation included slide after slide of rosy graphics and numbers. To address Portland’s environmental bent, it showed how in San Diego, 30 percent of uberX rides start or end near a transit station. To show equitable service, it explained that Uber’s study in Chicago found wait times were consistent across the city, regardless of area income. To show drivers make livable wages, it introduced data from Princeton

Plouffe



them

economist Alan Krueger, who served with Plouffe in the Obama administration, that found uberX drivers made more than \$16 an hour.

The inundation of data made it hard to spot holes. The Chicago study was just for people who had the Uber app, so it didn't address poorer riders who can't use Uber because they don't have smartphones, and Krueger's big pay analysis didn't ask about how much drivers spend on expenses such as gas and insurance, making it an incomplete earnings picture.

Before a late-February task force meeting, a weary-looking Alpert said there were so many issues to consider that he was trying to keep everyone focused on safety so Uber could still get provisional permits in early April. Other issues, he said, could be dealt with later. "We weren't having luck stopping them," Alpert said. "We won't be able to keep them off the streets much longer."

On April 9 the task force suggested a 120-day trial period for Uber. It recommended that the City Council accept the insurance Uber provides and let both taxis and ride-hailing apps choose their own background-check providers. The task force also allowed auto shops with fewer credentials to inspect both taxis and the ride-hailing vehicles. Yet there were inequities. Taxis had to carry more insurance, and their rates were capped, while Uber could jack up fares during foul weather or other peak times—a policy the company calls surge pricing. At least 10 percent of the taxi fleet had to be wheelchair-accessible, while Uber could direct wheelchair-bound passengers to transit companies that serve the disabled.

The taxi industry and its supporters cried foul. One driver compared Uber to Enron because it "doesn't play by the rules." A man who regularly attends council meetings and calls himself Lightning said that Uber was already worth billions. "That is what you value the most," he said, arguing that Uber should make a "reasonable offer" to Portland taxi drivers who lose business.

The proposal needed support from at least three commissioners to pass. The whole process was Hales's and Novick's baby, so they provided two likely votes. Amanda Fritz would be a long shot. She was particularly progressive, and her husband had recently died in a car crash, making her vigilant about drivers

carrying adequate insurance. Nick Fish wasn't buying the whole sharing-economy concept—he was the sole commissioner who didn't vote to allow Airbnb. That left Dan Saltzman, the long-serving council member who championed wide-ranging rules for Airbnb. One City Hall staffer describes Saltzman as the closest thing Portland has to a free-market conservative.

Uber had been working on the council members for months. "They kinda run this," Alpert said in February. "I keep feeling they will just wear you down. If we end up in court, we will have to lose just based on resources."

Records show the company had 19 in-person meetings with city officials in the first three months of the year, including one at the end of March, when Uber brought back the big gun, Wiener, to meet with Saltzman, the likely swing vote. Wiener had consulted on Saltzman's past campaigns. All the meetings, combined with phone calls, meant Uber spoke with City Hall on average almost every other workday. E-mail traffic was even heavier. The city hasn't released the correspondence, which *Bloomberg Businessweek* requested in early April, saying it's taken longer than expected because Uber and city staffers exchanged about 300 e-mails that may fall under the request.

As a gesture of good faith, Uber paid its outstanding fines, and the council scheduled the vote on a proposal Novick and Hales submitted in mid-April that echoed the task force's suggestions with a few tweaks, notably removing the rate cap for taxis. The morning of the vote, Uber hosted a breakfast for about a dozen drivers at a downtown restaurant, then marched the group to City Hall, with TV news cameras in tow. City Council was in session, so an Uber communications manager instructed them to leave a note in the council office. That evening, they returned for official testimony. Both Uber and taxi reps were out in force, with three hours of public comments. "#PDXRides hearing in nutshell," tweeted *Oregonian* transportation reporter Joseph Rose. "Uber drivers: Portland taxis never show up. Cabbies: Uber drivers are rapists, burglars, criminals."

In the end, the council approved the 120-day trial period. Saltzman cinched the vote. That Friday, Uber started operating again. The council is slated to take up permanent regulations, with updated

requirements for serving passengers in wheelchairs, in late summer.

On April 29, Uber threw a second launch party, this time at a hand-harvested sea salt factory. Duck breasts with pistachio butter and huckleberry sauce were served; the photo booth no longer had protest signs. Three City Hall aides attended.

The next day, Plouffe and Hales shared the stage at an event organized by TechFestNW. Back in December, Alpert had said he wasn't having luck getting Plouffe to attend the conference, which is Portland's answer to Austin's South by Southwest. Now on stage, Plouffe and Hales were all smiles. Hales teasingly tossed a copy of the negotiating bible *Getting to Yes* to Plouffe, a nod to Novick's "we'll throw the book at you!" threat.

Plouffe told the audience that playing nice in Portland isn't necessarily a model elsewhere. "Maybe it is. Maybe it isn't," he said. Despite its wins, Uber still has plenty of battles left in the U.S., not to mention abroad. It's recently backed out of places like San Antonio, where it says new rules are too onerous.

It's nearly impossible to calculate Uber's ground war costs because many cities and states don't require the disclosure of lobbying costs. Those that do show that influencing policy doesn't come cheap. Take Texas. In 2013, Uber had no registered lobbyists in the state. Last year, it reported 14, and so far this year, that's grown to 28 who have registered to work on Uber's behalf, with contracts that could total \$420,000 to \$945,000, according to the filings, more than Philip Morris and Pfizer. In the past year, Uber spent \$208,000 in Maryland and \$684,000 in California.

City-level battles can be costly, too. Last year, Uber put more than \$600,000 into a voter referendum in Seattle and spent \$314,000 lobbying in Washington, D.C. The Portland campaign looks quaint by comparison. Uber reported spending about \$68,000 on outside lobbyists in Portland and Oregon in the last two quarters.

Just days after the festival, Uber sent an urgent message to Portland users through its app. A bill the taxi industry supported in the Oregon statehouse would require higher insurance coverage. "Portland spent months creating thoughtful regs to welcome ridesharing!" Uber wrote. "Now that's in jeopardy. Help keep it around." Attached was a link to a petition, addressed to every member of the legislature. **E**

—With Eric Newcomer and Olga Kharif

Off the streets much longer



BEAT RAYED

Noel Lee claims he built the
headphones

61

\$3 billion Apple paid
for.

His take? \$0.

Now he's suing for his share



BY PAUL M. BARRETT

PHOTOGRAPHS BY JULIAN BERMAN

The most fateful product test of Noel Lee's career took place in 2007 on a sunny day in Santa Monica, Calif. Starting in a proverbial suburban San Francisco garage, Lee had built a successful company called Monster that made and sold high-end speaker cables. In the mid-Aughts, he decided consumers would part with a couple hundred dollars for a more stylish set of headphones. After burning through millions of R&D dollars, Lee finally got a meeting in the office of entertainment magnate Jimmy Iovine, co-founder of Interscope Records. Joining Iovine was his business partner Andre Young, better known as Dr. Dre, the rap pioneer and a mogul in his own right. It would be difficult to identify a duo whose influence on popular culture in the 1990s exceeded that of Iovine, collaborator with everyone from Bruce Springsteen and U2 to Eminem, and Dre, a member of the seminal hip-hop group N.W.A., known for such anthems of black anger as *F--- tha Police*.

A large man with closely cropped hair, Dre put on Lee's headphones. He turned up the volume on 50 Cent's bass-heavy *In Da Club*. "That's the s---!" he exclaimed.

Beats by Dr. Dre, the headphones built by Monster and backed by Dre and Iovine, reshaped the audio marketplace almost from their debut in January 2008. Lady Gaga, Justin Bieber, Sean "Diddy" Combs—all wore their signature branded Beats models marked with a lowercase "b." LeBron James and Serena Williams favored Beats; so did British soccer idol David Beckham and Apple co-founder (and longtime Iovine friend) Steve Jobs. The candy-colored headphones became required accessories not only for celebrities but also for subway riders and mall rats everywhere.

For several years, Lee lived an entrepreneur's dream. "Dre is an icon," he says. "He's the pinnacle of pop music. Jimmy Iovine is a legend. And I [was] in business with them." In late May 2014, Apple agreed to buy Beats by Dr. Dre and a co-branded streaming music service for \$3 billion, in the tech giant's largest acquisition ever. Lee got nothing.

"We designed, built, and marketed the headphones, and we were getting none of the credit," he says. In January he filed suit in California state court, accusing Dre and Iovine of stealing the design, manufacturing, and distribution rights to Beats. Lee alleges the duo achieved this "corporate betrayal" by shuffling ownership of Beats and triggering a contractual provision that cut him out of the action.

Although Lee didn't name Apple as a defendant, its lawyers are defending Dre and Iovine, now employees of the company. Apple has retained Boies, Schiller & Flexner, the New York-based firm headed by preeminent corporate litigator David Boies. Company spokeswoman Rachel Wolf declined to make Dre, Iovine, or Apple executives available for comment. "Lee apparently regrets his business decisions and now asks that he and Monster be excused from as many of their contractual obligations as possible, but regret is insufficient," Apple's attorneys assert in court papers.

Lee concedes he was naive in his dealings with Iovine and Dre; the legal question is whether he was also a victim of fraud. "We've got a real claim that a jury will understand: Someone

got cheated," says Joseph Cotchett, the well-known Northern California trial lawyer Lee has hired. Cotchett estimates his client's damages should be at least \$150 million.

Cutting past the legalities, the suit represents a cry of emotional pain by a star-struck nerd-engineer who thought he'd made real friends in the shark tank that is the music business. One senses that, as much as he'd like a pile of Apple lucre, Lee would also value an apology and access to the VIP lounge. "They've erased Monster from a great business story," he says. "That's not right."

Lee receives visitors at Monster's headquarters south of San Francisco not in his spotless office, decorated with heavy oak audio units of his own design, but in a brightly lit salesroom chock-full of plastic-wrapped merchandise. Dressed black-on-black, à la Johnny Cash, Lee, 66, wears oversize aviator glasses and combs his hair straight back. He's a classic low-tech geek who grew up taking appliances apart and putting them back together. He loves the virtuoso guitarists of two generations back, men like Carlos Santana and George Benson. He's an

obsessive fan who got to know these heroes and prominently displays autographed photos and electric guitars to prove it.

Lee gets around on a chrome-plated two-wheel Segway, necessary because of nerve damage he attributes to his work in the 1970s as a junior nuclear technician at the Lawrence Livermore National Laboratory. Workplace protections weren't what they should have been, he says, and employees unwittingly exposed themselves to heavy doses of radiation, the effects of which weren't immediately understood. Lee suffered spinal problems that made it difficult and then impossible for him to walk. All the same, he never sued the government, because, he says, "it didn't seem worth the trouble."

He tells a classic American immigrant story, beginning with his parents' arrival on a freighter from China in October 1948. Noel was born in San Francisco three months later. He attended public schools through college at California Polytechnic State University, where he received a mechanical engineering degree in 1971. He played drums in an all-Asian-American folk-rock group called Asian Wood (Crosby, Stills & Nash covers in matching Hawaiian shirts and white bell-bottoms). To support a wife and young son, he took the lab job, but

given the choice, he preferred tinkering at home with stereo gear. "Noel is wired internally—no pun intended—to have a passion for sound reproduction," says David Frangioni, a close friend in Miami who builds recording studios and luxury home-audio systems. "Some people listen to the melody, to the lyrics—Noel and I listen to those—but what we're really eccentrically obsessed with is how to make the overall sound amazing."

In 1979, having left his government job, Lee launched Monster based on the insight that serious music fans would pay more for heavier copper speaker wire that conveyed "more dynamic sound." Until then, hi-fi cable had been an afterthought. "We un-commoditized a commodity product," he says.

He describes Monster Cable as selling "the cure with no disease." Apparently not alienated by the patronizing slogan, consumers began forking over \$50 for Lee's more expensive wire. Performers ranging from Guns N' Roses guitarist Slash to Keith

**"They've erased
Monster from a
great
business story.
That's
not right"**



Richards of the Rolling Stones became loyal Monster Cable users.

Over the years, Lee applied the same strategy to other audio accouterments. He got consumers to trade up from a \$10 power strip to a \$150 Monster Power device that promised both surge protection and “sound filtration” for a clearer musical tone. He alchemized a \$2 bottle of spray cleaner into a \$20 product suitable for swiping dust from a gigantic plasma TV. In pep talks to salespeople, he suggested adapting McDonald’s “Would you like fries with that?” approach. “We were the accessory kings,” he says.

It wasn’t a huge leap in Lee’s mind to persuade mobile device listeners to graduate from cheap earbuds to high-priced headphones. In 2005 he introduced the padded over-ear Monster Turbine Pro. At \$400, the Turbine didn’t fly off the shelves. At the same time, the company was looking for business partners for high-definition audio software that Lee had developed to remix and remaster two-channel recordings for “surround-sound” play.

Lee sent his son, Kevin, then a Monster employee, to Los Angeles to look for partners for the new audio software. Kevin scored an audience with Iovine, then at Universal Music Group. Iovine wanted to talk about headphones. That meeting, according to the Lees, led to Iovine and Dr. Dre paying a call. Photos of the 2006 gathering at the company’s offices show Dre in a dark-colored designer sweatsuit, a grinning Noel Lee with his hand on Dre’s expansive shoulder, and Iovine in a ball cap and faded jeans.

“We gave Dre and Jimmy an education in sound,” Lee says. “They were talking about building a better speaker, and I said, ‘Headphones are the new speakers. Let’s make headphones together.’ And that’s where Beats came from.”

Iovine and Dre tell a different creation myth. Theirs begins on the Santa Monica beach next to a sparkling Pacific Ocean. The two old friends bumped into each other while exercising in 2005. They fell into conversation about next steps in their professional lives. Iovine had begun as a recording engineer in the 1970s for John Lennon and Springsteen, later produced records for Tom Petty, Stevie Nicks, and U2, and in the 1990s turned Interscope into one of the most successful labels by selling hard-edge black rap to white suburban teenagers. After releasing his 1992 debut album, *The Chronic*, on Death Row Records, Dre moved to Aftermath Entertainment, a division of Interscope, where he lent his Compton (Calif.) street cred to Iovine’s burgeoning business. Dre helped shape the careers of fellow rappers Snoop Dogg, Xzibit, and The Game, while Iovine produced the Academy Award-winning Eminem movie *8 Mile* (2002) and was executive producer of the 50 Cent documentary *Get Rich or Die Tryin’* (2005). Dre and fellow former N.W.A. member Ice Cube share producer credits on the film *Straight Outta Compton*, which is due in theaters in August and recounts the group’s rise. (Already soaked in controversy, the

film made news when another rap producer, Suge Knight, was charged with murder for running over two men on the set of a promotional video shoot. Knight claims it was an accident.)

Describing their 2005 beach encounter at a New York conference last October, Iovine said he’d just negotiated a new contract with Universal Music that allowed him to pursue tech innovations. Dre’s lawyer had proposed that he endorse sneakers. Iovine said he advised his friend to sell speakers instead. Dre’s version of the story has him saying, “F--- sneakers. Let’s make speakers.” Whoever came up with the sneaker/speaker quip, the conversation eventually shifted to headphones, according to Iovine. Dre proposed the brand “Beats by Dr. Dre.”

In their telling, Iovine and Dre selected Monster merely as their manufacturer—the company that would oversee the factories in China, among other things. Lee describes Monster as the prime mover and Iovine and Dre as the frontmen. Monster, says Lee, shifted 100 of its 600 employees to the newly named Beats project and later hired Robert Brunner, a former designer for Apple, to refine the headphones’ sleek Apple-esque look. Financing the initiative, Monster built more than 30 test models, culminating in the one Lee brought to the late 2007 listening session during which he says Dre issued his scatological blessing.

In January 2008, Monster signed a licensing agreement under which the company would make, market, and distribute the headphones and pay Dre and Iovine a 19 percent fee for use of the Beats name and their access—the ability to get the product onto the heads of top entertainment and sports figures in videos, news conferences, and clubs. In his lawsuit, Lee alleges that at the time, Beats “had no employees, no engineers for headphone technology, and had no role in engineering or developing the ‘Beats by Dr. Dre’ high-end headphone line.”

To call the headphones a winner would be an extreme understatement. In 2007 the \$100-and-up headphone segment generated less than \$500 million in total sales. By 2012 the total had grown to \$1.2 billion, with Beats grabbing two-thirds of the high-margin market. The rest was divided among established rivals Bose and Sony and several smaller upstarts.

Audiophiles gave Beats mixed reviews, with some praising their thunderous bass thump and others carping about crude sonic overkill. What wasn’t disputed: Beats turned headphones into a must-have \$200-to-\$300 fashion-statement-cum-status-symbol. Many consumers wore their Beats around their necks even when they weren’t listening to music. “Like he did with wire, Noel created a new category with headphones,” says Gary Shapiro, head of the Consumer Electronics Association, a trade group. “He’s a marketing genius.”

In August 2009, after 18 months of phenomenal performance, Lee, Dre, and Iovine signed an amended licensing agreement that adjusted several aspects of the relationship among the parties. Beats Electronics, constituted as a separate company with a payroll of its own, now joined as a party to the amended agreement. The revised contract’s most consequential provision stated that a “change of control” of Beats Electronics would result in Monster losing all rights to manufacture, sell, and promote the brand. New owners, in other words, wouldn’t be obliged to continue to do business with Monster.

“We didn’t think that much about it,” Lee says of the change-of-control provision. “We saw ourselves as in business with Dre and Jimmy for the long term.”

For a while the Monster-Beats venture continued to swim in cash, generating hundreds of millions of dollars in annual revenue for Monster and tens of millions a year in licensing fees for Dre and Iovine. Then, in August 2011, Lee learned that without seeking his opinion, let alone approval, Iovine and Dre had agreed to sell 51 percent of Beats to the Taiwanese cell phone company HTC for \$309 million.

Lee had acquired some stock in Beats Electronics, but his 5 percent stake gave him no way to stop the sale, which, according to Iovine and Dre, triggered the change-of-control clause. “I was shocked,” Lee says. HTC and Beats made clear that they intended to separate from Monster and go their own way. How exactly Iovine and Dre planned to manufacture and distribute the headphones without Monster wasn’t clear to Lee.

For public consumption, both Monster and Beats Electronics presented the split as amicable. At the January 2012 Consumer Electronics Show, Iovine cheerfully showed a *Bloomberg Businessweek* reporter photos on his iPad of celebrities wearing Beats: the late Jobs, Nicole Kidman, and Kobe Bryant, who sported a pair in L.A. Lakers purple. Citing two people who asked not to be identified because the separation talks were private, the article reported the Monster-Beats relationship had “turned sour over financial terms,” with “Beats balking at its share of the revenue.”

In the same article, Lee said Monster would start over in headphones, vowing: “We can be the Apple of the headphone space, with or without Beats.” In June 2012, Beats and Monster signed a definitive separation agreement.

Less than a month later, Iovine and Dre again caught Lee by surprise when they bought back half of the 51 percent interest they’d sold to HTC. “Whoa, what’s this?” Lee recalls thinking. In September 2013 the private equity firm Carlyle Group bought the rest of HTC’s stake in Beats. When the dust settled, Carlyle had acquired almost a third of Beats for \$501 million. Lee says his head was spinning: “Now I knew I didn’t know what was happening.”

In early May 2014, rumors rippled through tech and music circles that Apple planned to acquire Beats. On May 27, two of Lee’s top lieutenants, David Tognotti and Leo Lin, happened to be visiting Harvard Business School, where they ran into David Yoffie, a professor and member of HTC’s board of directors. According to Lee’s lawsuit, Yoffie told the Monster executives they’d been had. Iovine and Dre had orchestrated a “sham” HTC acquisition two years earlier to trigger the change-of-control provision and push out Lee and Monster, the professor supposedly said. (Yoffie declined via e-mail to comment for this article, citing the *Monster v. Beats* litigation. Neither Marcus Woo, HTC’s general counsel, nor the company’s outside lawyers responded to multiple requests for comment.)

On May 28, 2014, Apple announced it would acquire Beats for \$2.6 billion, with \$400 million more to come over time. Dre, who owned 20 percent of Beats, appeared in a YouTube video boasting he’d become the “first billionaire in hip-hop.” Iovine, who held 25 percent, according to data compiled by Bloomberg, stood to collect \$750 million from the sale. In its announcement, Apple said it planned to improve Beats headphones, but analysts observed that the tech giant’s main interest was Beats Music, an online subscription streaming service unveiled by Iovine and Dre earlier in 2014. On June 8, Apple

announced that Beats Music would get folded into a massive new initiative, Apple Music, a competitor to startups such as Pandora and Spotify. Apple’s service will combine continuous, streaming playback of music from the iTunes library, as well as custom playlist creation, autonomous DJing features, and even a global radio station.

In a December 2014 interview with *GQ* magazine, Iovine said he’d first approached Apple about Beats in 2012: “I convinced them that they had to buy this company. I said, ‘I don’t want to work for anybody else.... I wanna come here, to Steve’s company.... I know you have a hole in music right now; let me plug it.’ I think it was two years before they said yeah.”

Finally, the full picture became clear, as far as Lee was concerned: Iovine and Dre had decided in 2011 or 2012 that they wanted to sell to Apple and sought to get him out of the way first. Apart from a lot of contract parsing, Lee’s suit reveals the ache of wounded pride: “Defendants built the Beats name on Monster’s back, and then attempted to re-write history by erasing Lee and Monster’s name from the product’s history.” Monster is struggling to get back into headphones; the company’s in the process of dismissing 200 employees, or one-third of its payroll.

At their client’s instruction, Apple’s attorneys, William Isaacson and Karen Dunn, partners at Boies Schiller, declined to speak on the record. The outline of their defense emerges, though, from preliminary filings and interviews with people familiar with the case. HTC’s short-lived relationship with Beats wasn’t a sham, according to Apple. Money and control changed hands. In any event, the

Monster-Beats licensing agreement would have soon expired regardless of the HTC change of control, Apple’s filings maintain. (Monster’s court papers claim that if the agreement had expired, Monster would have retained rights to manufacture and distribute Beats-branded merchandise.)

The legal provisions at issue aren’t terribly esoteric, and Monster might have a stronger case against its own contract lawyers than it does against Beats/Apple. Moreover, Apple’s defense team notes that before Apple announced its acquisition, Lee had sold back his 5 percent interest in Beats Electronics. If he were so dedicated to a long-term partnership, he’d have kept the stake—and been due about \$150 million in connection with the Apple buyout. Instead, the defense contends, Lee played a short-term game: Monster took healthy revenue from his collaboration with Beats and—for whatever reason—surrendered its rights in the event of a change of control.

Lee’s attorneys claim in the complaint that he’s “an industry icon,” similar in stature to Apple co-founder Steve Wozniak. In the world of consumer electronics, that boast is only mildly hyperbolic, says Shapiro, the trade group executive: “Noel is really loved by retailers. He’s inspirational.”

All well and good, says Apple, but the man behind Monster made a deal, and he has to live with it. Lee can’t accept that. “The headphones,” he says, “were my idea.” **B**



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MACROB



66

CAN CRAFT BEER SURVIVE A

REWERY



67

B INBEV? BY DEVIN LEONARD

PHOTOGRAPH BY ERIC HELGAS

After 19 years of running Elysian Brewing, a craft beer maker in Seattle, Chief Executive Officer Joe Bisacca was ready for a change. He was tired of worrying about making payroll, feeling guilty about the company's miserly 401(k) plan, and trying to keep pace with the ceaseless demand for Elysian's irreverently named beers, such as Space Dust, Superfuzz, Mens Room, and Loser Pale Ale. The last was inspired by the grunge-rock band Nirvana and carries the slogan "Corporate beer still sucks." So he and two partners, David Buhler and Dick Cantwell, talked about selling. Before long they were in touch with Andy Goeler, CEO of craft beer for AB InBev's Anheuser-Busch division. Elysian and AB InBev might seem like a strange match. AB InBev, the world's biggest beer company, manufactures Budweiser and its sister brand, Bud Light, the kind of corporate products that get the rhetorical middle finger from Loser Pale Ale. AB InBev is also an assiduous cost trimmer. That didn't seem to bode well for Elysian's 217 employees.

Still, the founders went ahead, in part because Goeler, a former Bud Light marketing director, assured them the company didn't want to make any major changes at Elysian, whose sales climbed 31 percent last year, according to IRI, a market-research group. In fact, Goeler wanted them to stick around and run the place. "Talking to Andy made me feel more confident about this," says Bisacca. "They don't need a 100,000-barrel brewery. They're looking for the brain trust. They're looking for the people that create these recipes and these brands."

AB InBev's purchase of Elysian for an undisclosed sum in January had its rough spots. Angry drinkers registered their displeasure on the brewery's Facebook page. "They've already lost a certain number of customers," says Kendall Jones, producer of the Washington Beer Blog in Seattle. "Hard-core beer geeks have copped an attitude: 'We're definitely not going to support AB InBev.'" In April, Cantwell left Elysian, saying he'd never wanted to sell Elysian to AB InBev in the first place but went along because he was outvoted by his partners.

Bisacca has no regrets. He likes that Elysian can continue to grow using AB InBev's money instead of taking out bank loans. He's tickled that his brewers have access to the multinational company's hop farm in Idaho. Elysian will continue to make Loser. And thanks to AB InBev, its beers will soon be available in Fairfield, Conn., where Bisacca's parents live. "I want my dad to be able to buy my beer at the grocery store around the corner," he told an audience in April at the Craft Brewers Conference in Portland, Ore. "I asked them, 'Can you do that?' And they said, 'Sure.'"

Since 2011, AB InBev has purchased four U.S. craft breweries: Goose Island Brewing in Chicago; Blue Point Brewing in Patchogue, N.Y.; 10 Barrel Brewing in Bend, Ore.; and Elysian. Goeler says it's looking at others, too. The craft industry has nothing to fear from AB InBev, he says; his company is buying up small breweries to satisfy the changing tastes of customers. Last year, AB InBev's sales volume in North America, its largest market, fell 1.3 percent, in part because of the declining popularity of Budweiser, shipments of which dropped 4.8 percent in 2013, according to *Beer Marketer's Insights*. Bud Light remains America's most popular beer, but shipments to retailers fell 3.9 percent. Carlos Laboy, an analyst who covers AB InBev at HSBC, applauds the company for buying upstart breweries such as Elysian. "It's the right thing to do," he says.

To the clubby craft brewing movement, however, the acquisitions are unsettling. Craft brewers

have built a thriving niche; their volume grew 18 percent last year while the overall industry was essentially unchanged. And they did it by positioning themselves as the underdogs in a war with large corporations, most notably AB InBev.

The little guys aren't necessarily so small anymore. Jim Koch, CEO of Boston Beer, the largest craft beer company, according to IRI, is a billionaire. So is Ken Grossman, founder of Sierra Nevada Brewing in Chico, Calif., the second-largest. Still, the vilification of AB InBev by craft brewers and their customers still goes on.

The Brewers Association, the craft industry trade group, has specific requirements to discourage its voting members from selling out to AB InBev or any other large beer manufacturer. They're forbidden from brewing more than 6 million barrels a year and selling more than a 25 percent stake in their company to a noncraft brewery. The rules are not always necessary. "There are many craft brewers who would never, never sell to AB InBev, even if they were offered a gazillion dollars," says Townsend Ziebold, managing partner of First Beverage Group, a Los Angeles-based investment bank that's advised many top craft beer makers. But the number of purists is dwindling. Foreign beer companies are swallowing them up. In 2013, Belgium's Duvel Moortgat bought Boulevard Brewing in Kansas City, Mo. Last December, Mahou San Miguel, Spain's leading beermaker, purchased 30 percent of Founders Brewing in Grand Rapids, Mich. "We used to all know each other," says Larry Bell, founder of Bell's Brewery in Galesburg, Mich. "Here's my line about the current situation: We are in the middle of the end of the beginning of craft beer. All the pioneers who started it off are getting older, and they have to look at an exit strategy."

Nobody is investing in the craft breweries as aggressively as AB InBev. Some craft brewers say the company wants to flood the market with its own quirky beers and confuse consumers who are looking for alternatives to Budweiser. Others say the company wants to do more than just befuddle beer fans—it wants to drive its craft rivals out of business. Tony Magee, founder of Lagunitas Brewing in Petaluma, Calif., says AB InBev is selling barrels of Goose Island for half what its free-spirited competitors charge for their products. "What they really want to do is disrupt this whole craft thing so they can go back to the business that they'd like to be in, which is making lighter beer with inexpensive ingredients," he says.

Goeler finds such talk exasperating. "People say, 'You guys are trying to put craft out of business,'" he says. "Well, we've done more to get craft beer to more people than anyone in the industry."

In late April, Goeler is at the Goose Island brewpub in Chicago, extolling Blue Line, a new beer named after a local subway route. He says it's both tasty and good for the environment. A friendly 57-year-old, Goeler has brown hair and wears rimless glasses through which he seems to constantly squint, like Mole in the children's book *The*



Goeler (left) and Porter at Goose Island's tasting room

Wind in the Willows. He explains that Blue Line is a small-batch offering sold only on draft in Chicago, which obviates the need for bottles and cardboard packaging. Its tap handles are made of local elm. “We’ll have a little sample,” Goeler says. “It’s great pale ale. I love it!”

It’s a new pitch for Goeler, but one he relishes. “I never had the bug to brew beer,” he says. “I have never had the bug to write a recipe. But I love being around the beer culture and the people that are making the beer. I am the guy that appreciates drinking the beer that’s made. And I love talking about beer and selling beer.”

Goeler grew up in Pompton Plains, N.J. After graduating with a marketing degree from nearby Fairleigh Dickinson University, he joined Anheuser-Busch as a salesman in 1980. He peddled Budweiser to bar and liquor store owners in blue-collar Jersey City, which he describes as a challenging experience for a newbie. He worked his way up through the company and in 1995 was named director for marketing for Bud Light, which he helped make America’s top beer, displacing Budweiser. “The guy is absolutely driven,” says Bob Lachky, a former Anheuser-Busch chief marketing officer and Goeler’s boss at the time.

In 2000, Goeler earned a spot on the *Advertising Age* Top 100 for his Bud Light work. He could stand in front of a room full of Anheuser-Busch distributors and get them excited about moving the company’s beverages. “Andy’s kind of a natural showman,” says Keith Levy, a former Anheuser-Busch vice president for marketing. “He had a reputation within the Anheuser-Busch world of being an inspirational guy onstage at the big national sales meetings. He was always there late at night and on the weekends, just a complete workaholic.”

In 2005, after his success with Bud Light, he was made vice president for imports and soon after for craft beer, too. “We didn’t really have anything,” Goeler recalls. “I was thinking, Oh my God, what did I do wrong?” Goeler admittedly struggled for awhile. He did a deal to import Grolsch beer from the Netherlands and helped launched an in-house faux craft brand called Shock Top, which was much ridiculed in traditional craft circles. He also hawked what he described as “a great-tasting” purple energy drink called 180 Blue, which somehow became one of his responsibilities.

In 2008, InBev bought Anheuser-Busch in a \$52 billion hostile takeover. Carlos Brito, the Brazilian-born CEO of the merged company, fired roughly 1,400 people, about 6 percent of the U.S. workforce. Goeler’s colleagues, who once traveled in corporate jets, flew commercial. Once-imported brews, such as Beck’s, were made in the States. Many remaining Anheuser-Busch executives couldn’t stomach the changes and left, but not Goeler. Thanks to the merger, he now had some top-tier imports to sell, including Stella Artois and Leffe. “I was in heaven,” he says.

Within a few years he also had a legitimate line of craft beers. In 2011, AB InBev purchased Goose Island for \$38 million. Its founder, John Hall, didn’t have a problem selling his company to AB InBev. He was approaching 70, and after two knee replacements, he needed to slow down. “I was really pretty confident they wouldn’t spend that money if they were going to screw it up,” says Hall. “And I think they also realized that craft was something they didn’t understand.”

When Hall delivered the news to his employees, many were shocked. Some immediately sent out text messages looking for new jobs. “There’s no question we lost some people,” Hall says. But he turned out to be right about AB InBev’s intentions for Goose Island. It didn’t fire employees or change ingredients, which was

wise. Bud Light drinkers may not scrutinize the ingredients or care who brews their beer, but craft beer drinkers do. A year after the acquisition, Hall felt secure enough to step aside and let Goeler take over as CEO. Goeler says he felt uncomfortable at first in his role, but he eventually won over the Goose Island people. “He wore dad jeans,” says John Laffler, a former Goose Island brewer who eventually left to start his own company, Off Color Brewing in Chicago. “People made fun of him for that. But he was very personable. Just because he worked at a big company doesn’t mean he’s an asshole.”

The Goose Island staff warmed to Goeler also because he was willing to play the role of sugar daddy. He increased the number of brewery employees. He expanded Goose Island’s much praised barrel-aging operation, which produces exotic ales in wine casks and bourbon barrels. Brett Porter, Goose Island’s former brewmaster, who’s now director for brewing for Goeler’s division, discovered how generous his new boss could be when he asked for some large French wine barrels, each of which would hold 1,585 gallons of beer. They cost \$12,000 apiece, before shipping. Goeler told him it wouldn’t be a problem. “We ordered four of them,” Porter says. “When the shipping container arrived, there were only three. I guess somebody has one in the garage somewhere.”

AB InBev decided to brew some of Goose Island’s more prosaic beers, like 312 Urban Pale Ale, alongside Budweiser at its plants in Baldwinsville, N.Y., and Fort Collins, Colo. Goose Island’s brewers oversaw the process and made sure they tasted right.

“We dumped more beer than every frat house in the Midwest could drink in a year,” Porter says. “It offended our sense of Yankee frugality, but it was the right thing to do.” Some people in the craft community snickered that 312 Urban Pale Ale was now being brewed in parts of the country where the area code was 315 and 970. But even AB InBev’s harshest critics conceded that the quality of Goose Island’s product didn’t suffer. “I think they figured out the smartest strategy is go out and buy some craft breweries with some heft and then get out of the way,” says Maureen Ogle, author of *Ambitious Brew: The Story of American*

Beer. “Like at Goose Island, as near as I can tell, they’re just leaving those guys alone.”

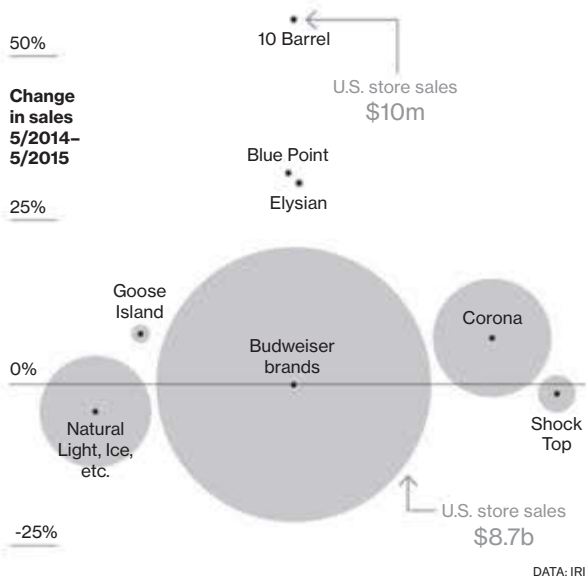
AB InBev’s uncharacteristically gentle stewardship of Goose Island helped when it approached other brewers, but not everybody swooned. Lagunitas founder Magee says an AB InBev executive visited him at his brewery in Petaluma and asked over burgers if he was interested in parting with his company. “I told him, ‘I would rather pull my eyes out,’” Magee recalls. He adds that he crossed paths with Goeler at a convention and found him absurdly un-craftlike. “He was presenting Goose Island in all his glory and talking about how all these bearded and tattooed people loved him,” Magee says. “Andy is walking around in Levi’s with a pressed crease down the front like he had just gotten them.”

Other craft brewers melted in AB InBev’s arms. In February 2014, the company bought Blue Point for an undisclosed sum with little controversy. In November, AB InBev acquired 10 Barrel, known for its promotional vending machines that dispensed a free beer called Swill, a lemony American version of a German wheat beer. Customers appreciated its altruism. In 2014, 10 Barrel’s sales rose 72 percent from the previous year.

Goeler made it clear he wanted 10 Barrel founders Chris and Jeremy Cox and Garrett Wales to stay around after the deal closed. “When we first brought that up in our conversations, the response we got was, ‘Well, we wouldn’t do this if you wanted to leave,’” says Wales. “Like, no way, you know?”

“THEY’RE LOOKING
FOR THE BRAIN
TRUST. THEY’RE
LOOKING FOR
THE PEOPLE THAT
CAN CREATE...
THESE BRANDS”

BIG GROWTH IN SMALL BEERS



Elysian co-founder Cantwell went to a Super Bowl party and found the ad harder to shrug off. “We were watching the game over in my little living room,” says Steve Luke, a brewer at Elysian. “That commercial came on, and you could hear a pin drop afterwards. It was not good.” Soon after, Cantwell tendered his resignation. “I had already decided I would not be able to work with my former partners,” he says. “Seeing the ad solidified my unwillingness to ever work with Anheuser-Busch again. There’s a big difference between an independent craft brewery that makes its own decisions and an enormous company that has one arm devoted to what they consider to be craft beer. In the case of Anheuser-Busch, they are perfectly content to have the different arms of their company at war with each other.”

Goeler laments Cantwell’s departure, but he’s proud the former brewmaster is the only one of 217 Elysian employees who’s left because AB InBev bought the company. “Dick Cantwell wanted to be involved and just changed his mind,” Goeler says. “That’s fine. We have Joe and Dave, the other two partners that still want to be actively involved.” He says his mission is to preserve the successful, offbeat cultures of these breweries, which means keeping the leadership intact, if possible: “If they wanted to sell and run away, what am I going to do? Go run it myself?”

Goose Island’s newly refurbished brewery is filled with people who look uncannily like the hipsters lampooned in “Brewed the hard way.” They listen to loud rock while tending to the fermentation vats and bottling machines. Goeler, who doesn’t look like any of his employees in his pressed shirt and dad jeans, nonetheless mingles easily with the brewers, exchanging fist bumps. “How’re you doing, brother?” he asks more than once.

After a tour of the brewery, Goeler heads upstairs for a beer tasting. Brewing director Porter pours out 18 different Goose Island brews from 312 Urban Pale Ale to Gillian, a farmhouse ale flavored with local honey and strawberries that sells for \$55 a bottle in restaurants. Goeler concedes he would have been amazed even five years ago to learn that he could sell such an expensive beer, but that’s the beauty of his new position. “It really is such an exciting time for beer,” he says, taking a sip.

Goeler says Goose Island has become something of a model for the rest of AB InBev and that people from other parts of the company make pilgrimages to Chicago. Last year, AB InBev’s board took a turn peeling oranges at the brewery, one of the ingredients in Sofie, a Champagne-like ale that the brewery says goes nicely with shellfish and brie. Today executives from AB InBev’s Canadian division are here. Goeler says visitors are fascinated by how quickly Goose Island can bring new beers to market, making decisions based on Porter’s recommendations and seeing how the results go over with brewpub customers. “They are like, ‘Wow, you guys just do it like that?’” Goeler says. “And we tell them, ‘We just do it like that.’”

Felipe Szpigel, head of the company’s U.S.-based high-end beer division and Goeler’s boss, is one of the visitors. Like many of AB InBev’s top managers, Szpigel, a lean 37-year-old triathlete, comes from Ambev, AB InBev’s Brazilian subsidiary. He focuses on getting AB InBev’s fancier beers into restaurants and other places they might not have been previously available. He says the company recently put the word out that it wanted to hire 100 craft beer salespeople. “We got 5,000 résumés,” he says.

Goeler argues that the old taboos about AB InBev are breaking down and people in the industry realize that it wants to help build the craft sector rather than tear it down. He says the key is for the company to be transparent about what it’s doing with its small breweries. “I mean, there’s really no hidden agenda,” he says.

He turns to Porter. “You’re not afraid to say anything, right, Brett?” Goeler asks. “Even though I’m your boss, and you’re up for a raise here in the next couple of weeks? I’m just kidding. I’m just kidding.” — *With Matthew Boyle and Duane Stanford*

AB InBev, it should be noted, has discontinued the use of the Swill machines.

Some Bend beer drinkers were furious with 10 Barrel’s founders for selling their company to AB InBev. “Beer fans who really supported 10 Barrel are avoiding them like the plague now,” says Larry Sidor, brewmaster at the Crux Fermentation Project in the city. “They are dissing them. They quit buying their beer. They quit going to their brewpub. It’s unbelievable.” Goeler hopes 10 Barrel’s lovelorn fans will change their minds when they find out about the fancy new equipment the company has purchased for 10 Barrel’s Bend brewery. “We just put in five more fermentation tanks and a couple of brewing tanks,” he says. AB InBev is also likely to boost 10 Barrel sales by mass-producing 10 Barrel’s Apocalypse IPA at its large plants as it has done with 312 Urban Pale Ale and Blue Point Toasted Lager.

The Elysian deal followed in January. It seemed to be going according to plan until AB InBev’s Budweiser unit ran a Super Bowl ad making fun of craft beers. The spot, “Brewed the hard way,” showed virile male Bud drinkers frolicking with their female counterparts in a nightclub while snobby hipsters with beards and handlebar mustaches sniffed beers in fancy glasses in a staid backroom. “Let them sip their pumpkin peach ale,” the ad proclaimed. “We’ll be brewing up some golden suds.”

The craft community was outraged, but Elysian employees felt especially betrayed. The brewery hosts an annual Great Pumpkin Day Beer Fest and brews a peach pumpkin ale, putting Goeler in a sticky position. He had spent much of his career selling Budweiser, but now things were different. “I am the craft guy,” he says. “So I was kind of like, ‘Oh my God.’ We now have over 600 craft employees. I had a little bit of a challenge on my hands, to say the least. They were all like, ‘What the hell is going on?’” Goeler confronted the Budweiser team about the ad. “I said, ‘Why did you pick that beer?’” he recalls. “They were like, ‘Well, we thought that would be a far-out beer.’”

It’s Bisacca who sounds more like the corporate guy when he talks about the situation. He doesn’t think the Bud guys did anything wrong. “We’ve been poking at Bud for all these years, and they said something about us,” he told Elysian’s employees. “It’s fine. It’s sibling rivalry at this point.” Soon after, Bisacca says, Brito toured Elysian. Bisacca made a point of taking him aside. “Brito,” he said, “I’d like you to try a beer that we’ve got.”

The two men had a glass of peach pumpkin ale and laughed about the controversy. Unfortunately, that wasn’t the end of it.



POWERING A CHANGING WORLD

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BUILT IN AMERICA, BELOVED WORLDWIDE

For Virginia-based STIHL Inc., a high-quality, domestically produced product is more than a business model—it's a core value



Companies love to tout the fact that they're bringing industrial facilities back to the United States. No matter where you look, the buzzword du jour in manufacturing, "inshoring," crops up, proudly reminding anyone who will listen that some enterprises are bringing jobs back home. But STIHL Inc., manufacturer of the number one selling brand of gasoline-powered handheld outdoor power equipment in America, and the number one selling brand of chainsaws worldwide, never left.

The U.S. subsidiary of the company founded by Andreas Stihl in 1927, STIHL Inc. began assembling chainsaws in a rented 30,000-square-foot warehouse in 1974. Four decades later, that facility now sits on approximately 150 acres and measures more than 1 million square feet under roof. Here, 2,000 employees produce over 260 model variations of equipment like blowers, trimmers, brushcutters, multi-task tools and chain-saws for America and over 90 countries around the world. One of seven international manufacturing facilities in the STIHL Group, the U.S. facility produces the highest volume of STIHL power tools.

To what does STIHL Inc. attribute this enviable success? "One of the things that has always been tantamount is being family-owned," says President Fred Whyte. "That means we get to focus on long-term goals. I don't have to stand up in front of shareholders and talk about last quarter's earnings or the next quarter's earnings. By comparison, our planning window is a two- or three-year time frame."

That stability extends to the boardroom, where only three people—all Stihl family members—have sat as CEO in STIHL's long history. "When you have that consistency in leadership, it's a lot easier than when you get a new CEO with different goals and objectives every few years," Whyte adds. "Our vision has remained consistent."

STIHL Inc. also boasts the fact that its products are a combination of renowned German engineering and good old American know-how. "German engineering has always been looked upon as being some of the finest in the world," says Whyte, who points to BMW, Audi and Mercedes. "However, if you're going to be a player in the American market, you have to be a manufacturer in the American market." Virginia Beach has proved to be a perfect manufacturing location, offering a rare combination of a talented labor force, a deepwater port and legislative support.

While the U.S. market has had some tumultuous times in recent years, STIHL Inc. weathered the storm quite nicely. In fact, while the power equipment market as a whole plummeted 16 percent in the worst year of the recession, STIHL Inc. took just a 1 percent dip. Whyte believes he knows why. "We have very

loyal customers," he explains. "When people are going to spend their money, they want a good return on that dollar. They're looking for something that's going to last for a while."

QUALITY IN QUANTITIES

To ensure a high-quality product—and to stay competitive in the worldwide market—STIHL Inc. employs a vertical integration method. Using a variety of production processes, workers on the Virginia Beach line make pistons, crankshafts, tanks, housings and more, which then get assembled into final products. This ensures that parts manufactured internally are of excellent quality and helps reduce supply chain risks. Or, as Vice President of Operations Christian Koestler puts it, "You don't just inspect the quality; you produce the quality."

The efficiency of this integration hinges on a high level of automation. The



**“YOU DON'T
JUST INSPECT THE
QUALITY; YOU
PRODUCE THE
QUALITY.”**

Christian Koestler, VP of Operations

Continued on page S10

STIHL® IN AMERICA



FRED WHYTE
PRESIDENT | STIHL INC.

“ Since 1974, STIHL Incorporated has been dedicated to manufacturing in America. And believe me, our story is truly American. It combines hard work and ingenuity with passion and perseverance. But most importantly, it reflects our company’s core values and our unwillingness to compromise on the way we do business. In the next few pages, I’ll tell you the story of STIHL in America, and what sets us apart. ”



STIHL®



BUILT IN AMERICA.*

Tanisha Hyman | Assembly / Trimmers

“Over the years, we’ve seen incredible growth – expanding from 50 employees assembling one chain saw to 2,100 employees producing over 275 models of handheld outdoor power equipment. By combining proven German engineering with advanced American manufacturing, our facility in Virginia Beach currently produces and exports products to over 90 countries. And while many of our competitors choose to move manufacturing overseas, we remain committed to creating more jobs in America.

Built in America sets STIHL apart.



**

*A majority of STIHL powerheads are built in the United States from domestic and foreign parts and components.



SERVING AMERICA.

Hector & Jose Cantu | Dealers / Owners
Saw House Power Equipment & Supply

At STIHL, we choose to sell our products in the U.S. exclusively through servicing Dealers, helping our customers get professional advice, product demonstrations, and in-store parts and technical service. You won't find these offerings at the mass merchants, and that's why you won't find STIHL at the mass merchants. Providing exceptional service, before and after the sale, is a guiding principle we continue to stand behind. ”

Servicing Dealers in America set STIHL apart.

**INDEPENDENT
WE STAND**
— STIHL —

independentwestand.org

STIHL®



AT WORK IN AMERICA.

Mike Kaliher & Sean Betts | Search & Rescue Team

“Our commitment to quality manufacturing and superior service has done more than help us sell equipment – it has helped us earn a reputation among America’s hardest workers. From those who fight fires to those who maintain the integrity of our forests and the beauty of our landscapes, people choose STIHL when it matters most. Because at the end of the day, there’s no substitute for reliability.



Trusted dependability sets STIHL apart.

*A majority of STIHL powerheads are built in the United States from domestic and foreign parts and components.



NUMBER ONE IN AMERICA.*

Brooke & Matt Wibbenmeyer | Homeowners

Our loyal customers have made us the number one selling brand of gasoline-powered handheld outdoor power equipment in America*. In today's marketplace, we know people have many choices, so to be chosen more often gives us an enormous sense of pride. We respect all those who care for nature, and we sincerely thank all the nation's homeowners, landscapers, loggers and contractors who proudly carry STIHL equipment. ”

Being Number One in America sets STIHL apart.

*"Number one selling brand" is based on syndicated Irwin Broh Research as well as independent consumer research of 2009-2014 U.S. sales and market share data for the gasoline-powered handheld outdoor power equipment category combined sales to consumers and commercial landscapers. ©2015 STIHL



STIHL®

BUILT IN AMERICA.* BELIEVING IN AMERICA.

STIHL STRONG



STIHL®

“The STIHL brand reflects a culture that transcends generations. People who use STIHL share our company’s beliefs – a belief in unwavering quality, a belief in the value of technical service, and a belief that the equipment should be as dependable as the people who use it. STIHL Strong is more than a motto; it’s a way of life. After all, staying strong by setting ourselves apart and refusing to compromise has always been the STIHL way.”

Thank you America for making STIHL Strong!

*A majority of STIHL powerheads are built in the United States from domestic and foreign parts and components.



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Austin Bock | 3rd Generation Farmer

Brooke & Matt Wibbenmeyer | Homeowners

The story of STIHL is bigger than any one advertisement can tell. Our story is best told by the people who actually use STIHL. That's why we created RealSTIHL.com – a place that captures our customers' amazing experiences. Do you have a real STIHL story to tell? Visit the site or tag your own tweets and posts with #RealSTIHL. Right now, people across the country are sharing their stories.

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STIHL®

company introduced its first robot in 2000. By the end of this year, there will be more than 150 robots online, making STIHL Inc. five times more automated than the average U.S. manufacturer, according to statistics provided by the International Federation of Robotics. The latest advance in automation is the addition of collaborative robots, and STIHL Inc. is one of the first U.S. manufacturers—and the first in Virginia—to introduce these into its operation.

Unlike companies in search of inexpensive labor, this efficiency does not come at the cost of human jobs. “No full-time STIHL Inc. employee has lost their job due to automation,” says Koestler. “If a station is automated, an employee will either be retrained and moved to another station, or they’ll be upgraded.” Among other functions, robots take on the tasks that are monotonous or highly repetitive, and the employees have come to look at the robots as fellow co-workers, even giving them nicknames.

Often, automation serves as a catalyst to encourage employees to further their careers. For example, one heat treat worker who helped Koestler implement one of the very first robots was so enthralled with the machine that he went back to school to pursue studies in the robotics field, and is now the department supervisor. Other employees have also gone from assemblers to highly skilled technicians.

Fostering employee growth isn’t a new concept at STIHL Inc. The company has offered an apprentice program to train employees from within since the early 1980s, and handpicked employees that go through the program come out with advanced degrees and higher salaries.

STIHL Inc. has earned the prestigious IHK Certification through the German American Chamber of Commerce/AHK for its apprentice program—only the third time an American operation has received this recognition, which is considered to be the international standard. “It’s the gold medal for us,” says Koestler. “Germany, the country that has perfected the apprentice program, has acknowledged us—in the United States—for our quality in education.”

THE PERSONAL EXPERIENCE

For all its dedicated employees, high-tech robots and advanced processes, STIHL Inc. places just as much emphasis on its retail network. Instead of selling its products through big-box stores, STIHL Inc. utilizes a unique two-step distribution strategy and a network of more than

8,500 independent servicing dealers. Not only does this guarantee a higher level of customer service, but it also provides the company with a key advantage that small businesses offer.

At a mass merchant, a sales clerk may help a customer select a product based solely on price. At an authorized STIHL dealer, the experience is very different. “Our dealers will ask the right questions,” says Nick Jiannas, Vice President of Sales and Marketing, who cites the example of an associate asking about a customer’s needs, including how often an item will be used.

“Then the dealer can recommend the right piece of equipment to manage and meet the customer’s expectations.” Likewise, the dealer can continue to be a resource, as customers can pick up parts and have their machines serviced at the point of sale.

In addition to enhanced customer service, this model includes a small-business component that aligns with STIHL’s core family principles. “We want to go to market through these local businesses, but we extend that idea beyond the dealer base,” says Jiannas. Not only does STIHL want customers to buy power equipment locally, it also wants them to use that trip to town to visit local florists, grocers and other businesses.

This belief led STIHL Inc. to help found Independent We Stand, a movement that now includes more than 120,000 independently owned businesses across the country. According to the initiative’s website, for every square foot a local firm occupies, the local economy gains an average of \$179, versus \$105 for a chain store.

While STIHL Inc. continues to thrive domestically, it also has a global reach, shipping products to approximately 130 dealers in over 90 countries. “Having a broad base of customers helps us remain stable,” Jiannas says. For example, though Russia currently faces economic uncertainty, markets in other countries, including the United States, continue to serve as an important counterbalance.

This balance, and the company’s clear mission statement, helps STIHL Inc. stay on top. “By remaining true to the values and vision of our founder, building a quality product and retailing it through our dealers who service what they sell, we have become number one,” says Whyte. That’s a position the company has held since 2009—and has no plans to relinquish.

— Lisa Friedman



“ **BY REMAINING TRUE TO THE VALUES AND VISION OF OUR FOUNDER, BUILDING A QUALITY PRODUCT AND RETAILING IT THROUGH OUR DEALERS WHO SERVICE WHAT THEY SELL, WE HAVE BECOME NUMBER ONE.** ”

Fred Whyte, President



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NON-STUPID SUMMER
READS

SHINY
BANKER'S LAMPS

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WHO
RAISE
THE
VEIL

INSIDE PETER SHAPIRO'S \$40 MILLION
JAM BAND BONANZA. BY ADAM SATARIANO

Photographs by Sacha Maric

Outside the Capitol Theatre in Port Chester, N.Y., music promoter Peter Shapiro is sucking down a Marlboro

and chatting with a security guy about the crowd inside seeing Grateful Dead bass player Phil Lesh. No major disruptions, the guard says, just somebody who puked while waiting in line. Shapiro laughs. He looks like an aging Jeff Spicoli and fits in among all the Deadheads. He walks to grab a Jack-and-Coke from the bar, where he's greeted by several fans who recognize him from his two decades spent promoting the kind of improvisational rock the Grateful Dead made famous. "Pete Shapiro!" booms a middle-aged dude, blocking his path. "Thank you! Thank you! Thank you! You make my life better."

That's because Shapiro, 42, is behind the farewell concerts that surviving members of the Dead will play in Santa Clara, Calif., (June 27-28) and Chicago (July 3-5). The performances by Lesh, Bob Weir, Mickey Hart, and Bill Kreutzmann, along with Phish guitarist Trey Anastasio subbing in for Jerry Garcia, who died in 1995, are among the most in-demand in years. They come 50 years after the band formed in Palo Alto and five years since the four musicians last played together.

They claim it's their last time on stage together, so the five nights are expected to net roughly \$40 million in ticket sales alone. It's on par with the \$45 million the band earned in 1993, when it played 81 shows and became the top-grossing tour act in the world. Today, a top pop group like, say, One Direction, can earn \$6.4 million on a good night. The Dead are expected to do more than \$8 million each evening. Of that, Shapiro and his business partner, Madison House Presents, will split at least 5 percent.

The Grateful Dead had plenty of suitors once it considered reuniting for its 50th anniversary, with superpromoters such as Live Nation Entertainment and the organizers of the Bonnaroo and Coachella festivals all making pitches. What Shapiro lacked in name recognition or infrastructure, he made up for in personal relationships, having built up a jam band niche in the past 20 years. He owns the magazine *Relix*, dedicated

"REUNITING
TICKETMASTER
WAS... UNLIKE
ANYTHING I'VE
SEEN IN THE
MUSIC BUSINESS"



Hart, Lesh, Kreutzmann, and Weir

to the scene, along with several venues, including the Capitol Theatre and the chain of Brooklyn Bowls. He's especially close with Lesh and Weir, who've played his stages before. "I like working with Pete because he wants to create situations that enhance the experience on many levels," Lesh says.

Promoting aging rockers is a surprisingly good business proposition. Younger artists struggle to fill an arena in an era of free streaming, but older acts such as the Eagles, the Who, Rolling Stones, Fleetwood Mac, and Billy Joel—who's taken up residency at Madison Square Garden—continue to be among the most lucrative tours. The Dead came early to this idea, having

LET'S GET THE BAND BACK TOGETHER... AGAIN

The highest-grossing reunion tours — Kate Rooney



\$442 MILLION

Black Ice Tour
2008-10

The Australian metalheads returned from an eight-year hiatus to record an album and do two years of shows.



\$410.6 MILLION

Reunion Tour
2007-08

The trio didn't bother releasing new music. Most nights opened with *Message in a Bottle*.



\$243.2 MILLION

Long Road
Out of Eden Tour
2008-11

The band's on tour again, right now—and on track to beat this figure.



\$143.7 MILLION

Alive Tour
1996-97

With almost 200 nights, the performances were the best ticket seller of that time.



\$75.4 MILLION

On With the Show Tour
2014-present

It's the group's only outing since 1999; 28 more dates were tacked on.



\$72.9 MILLION

The Return of the Spice Girls
2007-08

Tickets sold out within 40 seconds of going on sale.



focused on performing live and building a fan community for most of its career. Many of their longtime followers have since amassed fortunes. So Shapiro arranged VIP packages that run as high as \$5,000 and provide access to an open bar, tie-dyed paraphernalia, and other perks. “The people buying the packages today would never have in their earlier years,” says Dan Berkowitz, who runs CID Entertainment, which is coordinating the deals. One customer told him “a VIP package back in the day was when the rest stop had a shower.”

Shapiro has been a Deadhead since those days. In March 1993, he went with a friend from Northwestern University to see the band play and “saw these kids like me, you know, in their early 20s,” he says. “But they weren’t going back to college that night. They were on the road.” After graduating he filmed a documentary about the Dead’s fans that led him to New York concert organizer Larry Bloch, who owned Wetlands Preserve, a rundown but famous music club in Lower Manhattan. Bloch wanted out of the business and offered it to Shapiro for “basically nothing,” he says.

By 2001, Shapiro had to close Wetlands because he could no longer afford Tribeca’s rising rents. He worked as an independent promoter, organizing concerts for Earth Day and Barack Obama’s first inauguration. In 2009 he opened Brooklyn Bowl in Williamsburg, a club with tricked-out bowling lanes opposite a small stage. It became one of New York’s most popular venues and spread to Las Vegas and London.

Last year, Shapiro spent months persuading each Grateful Dead member to do the shows. Some of the relationships were strained after decades of knowing each other. (“Dysfunctional? Yes, but still a family,” says Tom Bailey, who used to work with

Bill Graham, the band’s longtime promoter.) After Garcia died, there were fights over money and musical direction. All are past retirement age, and years on the road have taken their toll. A TV special was briefly considered. But by early January, after much coaxing, Lesh called to say the band would work with Shapiro. “There were times it was on and off,” Shapiro says. “I had to reach into the toilet sometimes.”

Ticketing has been a bigger headache. Since the group first started touring, it’s sold tickets to people who send in mail orders to Grateful Dead headquarters in California. In an attempt to honor that tradition, Shapiro set aside 10 percent of the tickets at Chicago’s Soldier Field. It backfired. After they sold out, many fans watched angrily as prices on the resale market climbed above five digits. For the Santa Clara concerts, Shapiro tried something different. He negotiated an unprecedented deal with Ticketmaster, which has exclusive rights to the stadium, to permit all seats (\$59.50–\$199.50) to be sold through an online lottery. “Removing Ticketmaster was an accomplishment unlike anything I’ve seen in the music business in a long time,” says Roger McNamee, a Silicon Valley venture capitalist who’s a friend of the band’s.

Other issues arise every day: coordinating performer schedules, booking practice venues, and speaking to vendors. An issue Shapiro resolved only recently was how to organize the parking lot outside the concerts—home to amateur jam sessions, vegetarian burrito stands, and the copious use of bongos during the band’s heyday. In a deal worked out with the Chicago Police Department, a portion of Soldier Field’s lot will be open to the public, and another section will be reserved for ticket holders.

Most mornings, Shapiro is in his Lower Manhattan office by 9 a.m., drinking the one Red Bull he allows himself per day. His space is filled with memorabilia from his career—a poster of the Flaming Lips’ singer, Wayne Coyne, playing on the National Mall; Lesh performing at the Capitol Theatre; a shot of Garcia hung behind the door. Dozens of framed photos are stacked on the floor as if Shapiro is still deciding which to hang. He can’t sit still, standing repeatedly to find images that punctuate a story. “I met Ken Kesey while doing the documentary,” he says, pulling out a picture of the author behind the wheel of a tie-dyed school bus. On his desk he has a bobblehead of himself wearing jeans and a checkered shirt. He’s wearing the same thing.

By 8 p.m. most nights, Shapiro’s off to see shows. Backstage at the Capitol Theatre, Lesh embraces him. A few days earlier was Lesh’s birthday, so Shapiro bought cake for the audience, which serenaded the bassist, 75, with an off-key rendition of *Happy Birthday*. Just as Lesh’s band was about to resume the set, Shapiro got back in his car to stop by Brooklyn Bowl, where the band Soulive was performing with the Roots’ drummer, Questlove. He can’t walk a few steps without being stopped by a friend or somebody who wants to be his friend. He stays about an hour, then he’s back in his Audi SUV, complete with children’s car seats. He’ll be up in a few hours to take his two kids to school.

Once that’s done, he resumes pecking at an iPhone in a case fitted with a BlackBerry-like keyboard. There was a problem with the sound equipment supplier. He’s also become obsessed with Chicago’s weather. Rain will alter the mood; if there’s lightning, the crew will need to go through an annoying rigmarole to keep fans safe. He says he’ll be troubleshooting during the shows, not watching them. “Someone said to me, ‘If it goes well, you’re Bill Graham forever,’” Shapiro says. “‘If it doesn’t, you’re f---ed.’” **E**

**Clark table lamp
by Lambert & Fils**
\$628; lambertetfils.com

Made from one continuous folded brass sheet, it abstracts the typical shape into something sculptural.

Available in black, white, and unfinished brass, anchored by a white marble cube.

**Adjustable pharmacy
desk lamp by World Market**
\$150; worldmarket.com

Ones like this—with an adjustable height and a domed metal shade—were created to provide targeted light. Try it if your job is heavy on dense, fine-print documents.

**Goldman LED table
lamp by Ron Gilad for FLOS**
\$495; lighting.com

Named after the investment bank, it blends classic elements like a green shade, brass body, and pedestal base with contemporary updates such as a dimmable switch and minimalist profile. Great for a small desk in an open-plan space.

**Classic adjustable
table lamp by
Restoration Hardware**
\$219; restorationhardware.com

The most versatile option, because the polished metal goes with any design scheme. Choose an Edison bulb if using solely as décor, or opt for a compact fluorescent one if you want to illuminate your entire private office.

**Bank lamp by
Inertia Projects**

\$241; inertiaprojects.com

It has a useful angle-adjustable shade—and a pull chain for extra authenticity. Though it's plenty advanced, using only 7 watts of electricity to power high-efficiency LED bulbs.

**Montgomery
banker's lamp by
Ralph Lauren Home**

\$1,050; ralphlaurenhome.com

The polished nickel and heavy weight lend a fat-cat, executive vibe. The price follows suit.

**Electric T banker's
lamp by Jones County Road**

\$260; jones-county-road.myshopify.com

A banker's lamp for the QuickBooks generation, it's got an exposed bulb atop a steel frame. This doesn't add much brightness, so use it to soften the tones of fluorescent overheads.

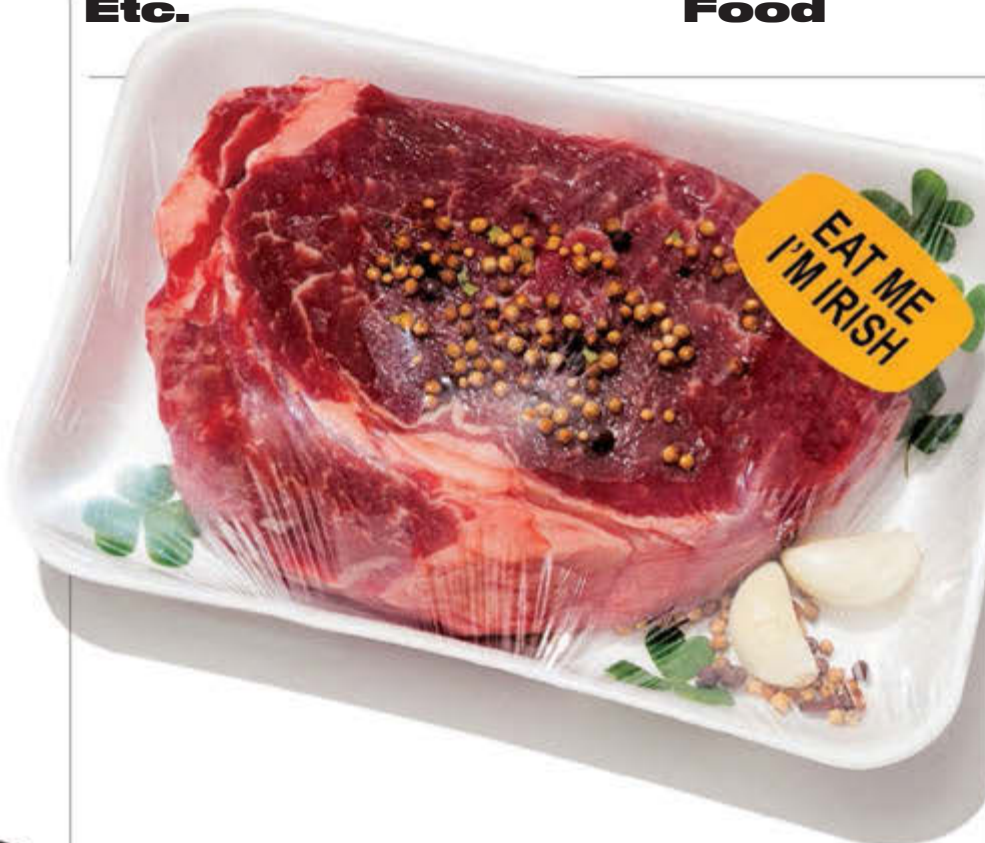
**Fuller table lamp
by Fuse Lighting**

\$3,369; fuselighting.com

The brass bar pivots to direct light where you need it, and the functional penholder/tray in the base is convenient if you don't have much room.

Rob Those Lamps

Modern riffs on the banker's classic for those who haven't balanced a checkbook in years. By Monica Khemsurov



LUCKY CHUCK

The land of mad cows gets into delicious, disease-free import steaks

By Claire Suddath

There's a new type of beef on the menu at Tir Na Nóg, an Irish pub in New York. The sirloins, fillets, and other prime cuts come from grass-fed cows that live outdoors. They get plenty of exercise, which makes the meat leaner. It has a stronger, almost gamey flavor. Sometimes it tastes as if it's been grilled over charcoal, even when cooked in a regular oven. At Tir Na Nóg, a rib-eye runs about \$25—a little cheaper than the same cut of grass-fed U.S. beef. That's because the meat is from Ireland. It's the first time Irish steak has been sold in the U.S. in almost two decades. It used to be illegal. Remember mad cow disease?

Earlier this year, the U.S. Department of Agriculture lifted the ban it placed on European beef in the wake of the 1996 outbreak of mad cow, which led to the infection of more than 200 people globally, the destruction of more than 4.5 million cattle, and countless steaks fearfully cooked well-done.

Now Ireland is trying to brand its beef as the next trendy meat, like Japanese Wagyu or dry-aged Texas tomahawk before it. The country has been lobbying the U.S. government for years to let it sell in the States, which is the largest consumer of beef in the world, with a per capita diet twice that of Europe. Meanwhile, Ireland has 1.4 cows for every person. The only thing that's stood in the way is mad cow, though “people have mostly forgotten about it,” says Karen Coyle, the North American envoy for the Irish Food Board, a government agency that promotes the country's food and beverages. “When we talked to Americans, the problem never came up.”

Ireland is selling its meat mostly to U.S. grocers, pubs, and restaurants in predominantly Irish neighborhoods. But the plan is to eventually target the Whole Foods set. A promotional website,

irishbeefusa.com, boasts that cattle have been roaming Ireland for 5,000 years.

There are photographs of adorable, sprawling plots with green rolling hills where happy, sustainably raised animals graze. The site brags that the same families have largely owned the country's network of 120,000 farms for generations. The words “low carbon footprint” are used a lot. Irish beef also costs about 20 percent less at wholesale than U.S. grass-fed beef, whose prices have jumped because of California's drought.

Despite the meat's beautiful provenance and cheaper price, Ireland is entering the U.S. market cautiously. On June 11, the Irish Department of Agriculture, Food and the Marine announced that a dairy cow was suspected of dying of mad cow. It was terrible timing, having been discovered two weeks after the World Organisation for Animal Health, the international body that tracks outbreaks, declared the country at a “negligible risk” for the disease. The food board declined to discuss this, nor did it advertise that a conglomerate bringing the beef to the U.S., ABP Food Group, was one of the companies involved in a 2013 contamination scandal in Ireland involving horse and hamburger meat. ABP declined an interview request.

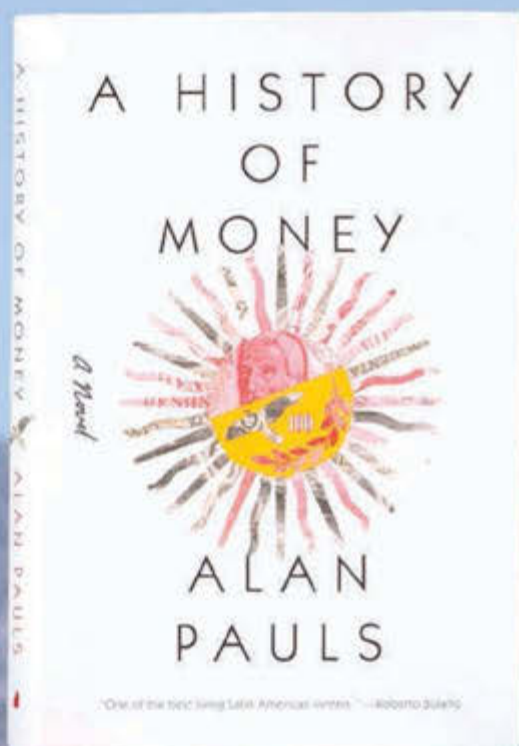
Winning over American cooks also won't be easy. And restaurants with no Irish connections have yet to switch. “You can get great grass-fed beef from U.S. cows, so it's usually not worth it to import anything unless you're talking about something really special, like from Japan,” says Bonnie Jenkins, manager of Keens Steakhouse in New York. Keens's sister restaurant in Dublin uses Irish beef, though only from one specific butcher who raises his own cattle. As the new cuts start landing in U.S. supermarkets, the food board plans to conduct in-store taste tests to convince shoppers that Irish steak is discernibly better.

It doesn't help, of course, that the country is often stereotyped for basically subsisting on potatoes. When the Irish Food Board polled Americans on their favorite Irish comestibles, respondents could only think of whiskey and Guinness, Coyle says. “You don't immediately associate us with food.” **E**

**IRELAND HAS
1.4 COWS FOR
EVERY PERSON**

SUMMER JOBS

Many of this season's top books riff on the working life. These seven are worth your downtime. By Camille Perri



A History of Money

by Alan Pauls

An executive is en route to meet with striking factory workers when his helicopter crashes. He dies, and a briefcase full of money goes missing. A top Argentine novelist uses this incident to explore one family's relationship with cash—and the ways it destroys us. **Read if:** You have wealth guilt.

Book of Numbers

by Joshua Cohen

This breakout novel from a young author follows a ghostwriter who pulls back the veil of the tech world in search of the meaning of life in the Internet era. At 592 pages, it's a commitment, but a worthwhile one. **Read if:** You attend lots of dinner parties.

The Unfortunates

by Sophie McManus

Do flawed rich people deserve pity? This tale of Wall Street corruption, office politics, pharmaceutical trials, inheritance, class, and power tries to answer that age-old, but still relevant, question. **Read if:** You enjoyed *Pride and Prejudice*.

Stay

by Victor Gischler

David Sparrow is loving life as a stay-at-home dad while his wife commutes—until his family is threatened by a crime lord. Suddenly, David's secret past unfolds. Saying more would spoil things. **Read if:** You work from home.

Thank You, Goodnight

by Andy Abramowitz

Imagine you're a washed-up rocker who's settled into complacency as a corporate lawyer. The protagonist of this comedy comes to terms with his boring life until one call convinces him he has a chance to rewrite music history. **Read if:** You've got a secret hobby you wish was your job.

Arms and the Dudes

by Guy Lawson

Back in 2007, three stoners from Miami won a \$300 million U.S. Department of Defense contract to supply ammunition. Instead of following protocol, they pulled off one of the most deranged global arms scams in history. **Read if:** You don't like fiction. Or are employed by the government.

The Knockoff

by Lucy Sykes and Jo Piazza

In this satire of the fashion and tech worlds, a glossy magazine editor discovers her former assistant is plotting to steal her gig and turn the publication into an app. **Read if:** You hate your boss.

HBO'S BOMB

In *The Brink*, Jack Black tries to make nuclear war funny. By Joshua Green

The opening credits of HBO's *The Brink* feature a giant Monty Python finger reaching down from the heavens to push a red button that will set off global thermonuclear war. A mad Pakistani general has mounted a coup, seizing control of the country's arsenal and threatening to, among other things, annihilate Israel.

U.S. political leaders are naturally alarmed—except for the one guy whose job is preventing global disaster. Secretary of State Walter Larson (Tim Robbins, who also produces and directs), whom we first meet naked and tied to a bed, appears to regard the crisis as an intrusion upon a life of Scotch, Cambodian hookers, and auto-asphyxiation.

As heroes go, Larson is fairly odious. His diplomatic energies are focused mainly on seducing young female aides; when his BlackBerry falls into a urinal, his long-suffering assistant must reach around him and fish it out. But it soon emerges that Larson is the only bulwark against Armageddon. Handsome, empty-headed President Navarro (or is it President Rubio?) is in way over his head and torn between the pleadings of his bomb-crazed, Cheney-esque defense secretary and Larson's calls for restraint. He may be a raging sexist, but it's a nuclear crisis and we can't be too choosy.

Neither can Larson, whose only contact with the regime is Jack Black—the comedian, and co-producer of the show, who's made a career playing the same kind of mugging, impish man-child. Here he's low-level State Department functionary Alex Talbot, a

dimwitted stoner, who's about to be fired for gross incompetence when he stumbles into the rogue general's clutches. While trying to score some weed at a crowded bazaar, he's captured, waterboarded, then told to secure ransom and satellites from the U.S. government under the threat of death.

Given the network and subject matter, *The Brink* (airing Sundays at 10:30 p.m.) clearly is meant to be the foreign policy counterpart to HBO's Emmy-winning *Veep*. The conceit is the same, ushering viewers into the inner sanctums of Washington power to lay bare the comic dysfunction, only here the setting is the Situation

IT'S MEANT TO BE A FOREIGN POLICY COUNTERPART TO *VEEP*

Room. HBO paid a fortune to make *The Brink*, rushed it into development, and is promoting it heavily. It's easy to see why: *Veep* set the standard for political satire. Why not help the franchise grow?

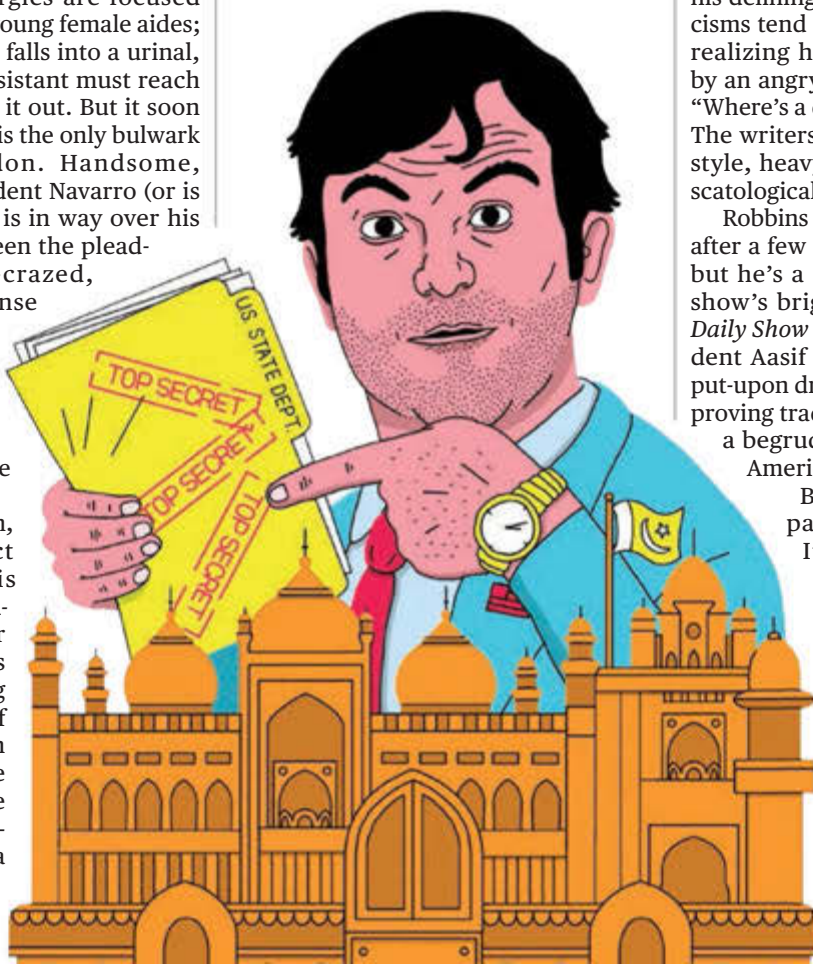
Veep, which focuses on the vice president's office, owes its success to the way it deftly lampoons recognizable Washington tropes. There's the soulless pollster-consultant Kent Davison, whom Selina Meyer (Julia Louis-Dreyfus) pegs as an "autistic lumberjack" and is elsewhere cited admiringly as "the Pol Pot of pie charts." Every White House has a guy like that. Unfortunately, there's less humor to be mined from international diplomacy—a dry topic even when it doesn't include such downers as *The Brink*'s beheading threats and world-destroying weapons. The show's creators seem to know this, so the politics quickly become the backdrop to, rather than the

source of, the comedy.

If HBO was trying to replicate *Veep*'s sharp, fast-paced humor, Black was an odd casting choice. Talbot's cretinism is his defining character trait, so his witticisms tend to be duds. (In one episode, realizing he's about to be carried off by an angry Muslim mob, he wonders, "Where's a drone when you need one?") The writers built a show to suit Black's style, heavy on stoner references and scatological jokes.

Robbins grows modestly more likable after a few episodes. He may be a lech, but he's a lech with savoir-faire. The show's brightest comedian is former *Daily Show With Jon Stewart* correspondent Aasif Mandvi, who plays Black's put-upon driver, torn between his disapproving traditional Pakistani family and a begrudging fondness for the ugly American he shepherds around.

But *The Brink* can't get past its own identity crisis: It's bro humor masquerading as political satire—more *The Interview*, Seth Rogen's North Korea parody that prompted the Sony hacking scandal, than *Dr. Strangelove*, which Robbins has cited as an inspiration. But what it really wants to be is *Harold & Kumar Go to Islamabad*. **B**



MARGARITA BARRY

30, founder and publisher, *IAmYoungAmerica.com*; designer, *Bohomodern*, Detroit

What's IAmYoungAmerica?
We profile entrepreneurs nationwide and provide grant money, classes, and resources to boost the economy and combat underemployment.

What's Bohomodern?
My passion. It started as a product line I made and sold online and turned into pop-ups around Detroit. Now we're opening a store. We do furniture, décor, clothing, and toys.

You must work a lot.
I would say 10 to 15 hours a day. I never sleep.

How's that with a toddler at home?
I'm opening the shop with the idea that she'll be able to hang with me there. You never want your life revolving more around work than family.

Does your look reflect your personality?
Yes. Very colorful, very fun, a little whimsical, but I also have to balance my vibrant creative side with a little bit of structure.

How did you choose this outfit?
I really like the scalloped edge. I love when you take a classic look and there's a small detail that makes it unique. And the fact that it's shorts—not at all a traditional suit.

Do you have a color palette?
I have a hard time wearing black or white or gray. Everything has to have some sort of pop.

Whom do you dress for?
Me. But a lot of my clients are entrepreneurs in their 20s or 30s in jeans, and then I'll meet with corporate investors, so my look goes both ways.

NORDSTROM

BODEN

DOROTHY PERKINS

FOREVER 21

MADDEN GIRL



KEVIN ROBERTS

Executive chairman, Saatchi & Saatchi

Running track at Lancaster in the 1960s



"I got kicked out at 17 in 1966. My girlfriend became pregnant, and my headmaster said, 'You've got to leave the girl.' I replied, 'That's not how we do things in the north of England.'"

Education

Lancaster Royal Grammar School, Lancaster, England

Work Experience

1967-69

Pub boy, delivery boy, exporter

1969-72

Brand manager, Mary Quant Cosmetics

1972-75

International new-products manager, Gillette

1975-82

Group marketing manager for export and special operations, Middle East/Africa, Procter & Gamble

1982-89

Regional vice president for Middle East, president and chief executive officer for Canada, PepsiCo

1989-96

Director and chief operating officer, Lion Nathan

1997-2014

CEO worldwide, Saatchi & Saatchi

2015-Present

Executive chairman, Saatchi & Saatchi



With sister Trisha in the 1950s



In the 1960s

"I worked in exports because I spoke French and Spanish—people in Lancaster didn't speak anything at the time, not even English."

"Lion was a bottler and the biggest brewer in New Zealand, and Nathan was a bunch of retail stores, and they wanted someone to bring them together."



Promoting Lovemarks, his book about advertising, at the London Book Fair in 2004

"My father worked in a mental hospital as a security guard, and that's pretty much the same job as running an ad agency."

"It was a stroke of luck and timing, and I was lucky to work with a genius—Mary invented the miniskirt. My bosses were women, so I learned how women lead with connectivity, collaboration, and creativity."



"Gillette was looking to get into female toiletries."

"It was during the heart of the Cola Wars and very fun. We felt we were the special forces."



Receiving an honorary doctorate at Lancaster University with mountaineer Chris Bonington in 2009

"We hired Robert Senior in 2008 and said, 'One day, my son, this all can be yours.' So on Jan. 1 we gave it to him."

SAATCHI & SAATCHI

Life Lessons

It's where

you'll make pancakes at 2 in the morning.

It's where you'll perform epic shower concerts.

It's where you'll tell her she's gonna be a sister.

It's where you'll long to be when you're anywhere else.

But first you have to find it...



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at [zillow.com](https://www.zillow.com) or on our family of apps.



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Today, agility is spelled A-P-I.

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But how?

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ca.com/api-management

1. A commissioned study conducted by Forrester Consulting on behalf of CA Technologies. 2. Gartner, Inc., "Magic Quadrant for Applications Services Governance," Paolo Malinverno, April 9, 2015. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.